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REGIONAL INDUSTRIAL CO-OPERATION:

EXPERIENCES AND PERSPECTIVE OF ASEAN AND THE ANDEAN PACT

Prepared by the

Regional and Country Studies Branch
Division for Industrial Studies

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Preface

The Regional and Country Studies Branch of UNIDO's Division for Industrial Studies is in its research programme carrying analyses of issues pertaining to the enhancement of industrial co-operation between developing countries in various regions and subregions. In this context, a particular programme was initiated to analyze the experience, current approaches and prospects relating to industrial co-operation in the Andean Group and ASEAN.

A series of studies has been carried out covering various relevant aspects such as industrial complementation, joint ventures, industrial financing and industrial policies.[1/] In order to facilitate a direct exchange of experience and a joint review of key issues in industrial co-operation, a conference was organized with officials of the Andean Group and ASEAN in 1982, followed by a study tour by the ASEAN participants to the capitals of the five Andean Group countries.[2/]

The major findings of the series of studies and of the conference and study tour have been consolidated into the present paper, which also contains proposals for action. It is felt that the information on the experience and outlook of the Andean Group and ASEAN would be an important basis for continued industrial co-operation in these two regional schemes as well as for conceiving co-operation mechanisms in other developing country groupings.

The paper has been prepared by Dr. John Wong, National University of Singapore, as UNIDO consultant, in co-operation with the staff of the Regional and Country Studies Branch.

1/ The list of these studies is contained in Annex 1.

2/ The conference was held at the Secretariat of the Andean Pact (JUNAC) in Lima from 11 to 14 October 1982. The conference and study tour were organized by the Regional and Country Studies Branch in co-operation with JUNAC and the Andean Pact countries concerned, and on the ASEAN side with the Committee on Industry, Minerals and Energy (COIME). It was financed under the UNDP Inter-countries Programme for Asia and the Pacific. (See "Report on the ASEAN/Andean Pact Conference and Study Tour on Regional Industrial Co-operation, 11-13 October 1982, UNIDO/IS/R.9.)

Chapter I

INTRODUCTION

(a) Regional economic co-operation/integration

Regional economic co-operation or regional economic integration - with the two terms often used interchangeably though imprecisely[1/] - has by now become widely accepted as an important instrument and potentially an effective means for facilitating development in a group of Third World countries. In the beginning, especially in the early 1960s when regionalism started to develop first in Latin America and later in other parts of the developing world, the economist's interest in the subject lay primarily in its theoretical interpretation within the mainstream analytical framework. It was believed that the traditional international trade theory could yield concepts or produce variants which would be adequate for explaining the process of regional economic co-operation/integration. Thus the problem was often analysed on the basis of the theory of customs union if welfare losses from the trade diversion effect could be offset by the welfare gains from the trade creation effect arising from integration. It was later conceded that, for developing countries, the basic economic rationale for co-operation/integration might not be found in the static, efficiency critera of resource and production reallocation effects as provided in the theory of customs union, but rather, in terms of "dynamic" considerations associated with the growth and development potentials for the countries involved in integration.

1/ Integration often refers to the more positive and specific process of economic co-operation. According to Bela Balassa, co-operation includes various measures designed to harmonize economic policies and to lessen discrimination, whereas the process of economic integration comprises those measures designed to suppress or remove discrimination. For example, an international agreement on trade belongs to the broad area of economic co-operation, but the abolition of trade restrictions is an act of economic integration. ("The Theory of Economic Integration" in Miguel S. Wionczek, ed., Latin American Economic Integration: Experiences and Prospects, New York: Praeger Publishers, 1966.) In this report, "regional co-operation" is used for activities in ASEAN while "regional integration" refers to the regional activities undertaken in the Andean Pact group. In fact, ASEAN has never officially used the term "integration", which is in official use in the Andean Pact.

In the 1970s the world was struck by a series of economic crises touched off by the first oil price adjustments, which hit many developing countries very hard. In retrospect, the turbulent world economy of the 1970s actually provided a great spur to regional economic co-operation efforts in the Third World. Although the global economic crises of the 1970s had clearly demonstrated the fact that national economies were actually more closely interdependent than previously thought, at the same time, developing countries (being mostly small- to medium-size with weak economic structures) were feeling vulnerable to the deteriorating international economic environment and were increasingly inclined towards seeking more autonomous means or greater self-reliant patters of development. If national "self-reliance" were often too unrealistic a policy to pursue, "self-reliance" on a regional basis would seem to be an acceptable alternative, an idea which was also incorporated in the New International Economic Order. Hence the post-energy crisis period in the 1970s witnessed renewed attempts and fresh efforts among groups of developing countries at regional economic co-operation, which were also strongly endorsed by many development economists as a form of South-South economic co-operation.

The upsurge of interest in regional economic co-operation among Third World countries can also be easily understood in terms of the international economic relations prevailing in the 1970s. It was argued that many developing countries would obtain a more equitable participation in the growth of the international economy if only they could act as a group. Many developing countries were affected, in varying degrees, by the growing global issues involving primary commodities, foreign investment, transfer of technology, protectionism, economic aid and the like. There was therefore a clear need to organize themselves to deal with those vital international economic issues collectively in order to secure a better leverage vis-à-vis the developed countries or other interest groups.

Over the years the objectives and functions of regional economic co-operation/integration in the Third World have become more complex and grown in significance. It is also now widely accepted that the net benefits of any regional economic co-operation/integration scheme among developing countries can no longer be realistically analysed within the neo-classical economic framework, but should be understood in a broader institutional context. The bases and rationales for regional co-operation/integration are apt to differ substantially from region to region or

case to case, and the various schemes should therefore be judged for success or failure in accordance with the institutional conditions and economic problems specific to the individual regions. Above all, the progress of economic co-operation/integration must not be measured in purely economic terms, but be put in the larger context of the political reality and the historical circumstances from which such efforts have evolved.

(b) Experiences of economic co-operation in ASEAN and the Andean Pact

This report is concerned with the experience of regional economic co-operation in ASEAN and in the Andean Pact, which have stood out in recent years as relatively successful experiments in the Third World. The five countries, namely, Indonesia, Malaysia, the Philippines, Singapore and Thailand, which form the Association of Southeast Asian Nations (ASEAN) are in Southeast Asia, while the countries which constitute the Andean Pact, namely, Bolivia, Colombia, Ecuador, Peru and Venezuela, are in Latin America; but both regional organizations have been actively pursuing or intensifying efforts towards a more viable pattern of regional economic co-operation. While ASEAN's current co-operation efforts are mere cautious and moderate, and seem to be directed towards more "regional co-operation", those of the Andean Pact are aimed at the more ambitious goals of "regional integration".

The main thrust of the discussion in this report is focused on regional co-operation in the field of industry, which plays a pivotal role in regional economic co-operation schemes. Most regional schemes start off with co-operation in trade through selective liberalization or tariff reduction, which is administratively easier to implement. However, real breakthrough in regional economic co-operation is achieved usually with successful progress in the area of industrial co-operation. This is particularly true with economic co-operation efforts in the Third World, where intra-regional trade is normally small and the scope for its further expansion limited unless there is a dramatic shift of the intra-regional trade structure from one based on traditional items to one based on manufactured products. Take the Andean Pact: the share of its intra-regional exports at the time of its formation was only 3 per cent. In the case of ASEAN, the proportion appears to be much higher, being slightly above 15 per cent. However, the figure for ASEAN is highly misleading, for the level of real intra-ASEAN trade would be much lower if

the entrepôt trade of Singapore and the traditional trade flow between Singapore and Malaysia (which used to be one country) were removed from consideration. Furthermore, the bulk of the intra-ASEAN trade was and still is constituted by primary products and other traditional items. Therefore a significant increase in the intra-regional trade for ASEAN or for the Andean Pact is unlikely until a substantial growth in the volume of trade in manufactures is achieved. But the expansion of trade in manufactures among Third World countries is often constrained by their lack of industrial complementarity, apart from the fact that the export markets for the major industrial commodities are extremely competitive and tend to be dominated by the highly industrialized countries as well as by a handful of dynamic, newly industrializing countries (NICs) in recent years. One effective means to promote regional trade in manufactured products among developing ocuntries would be regionally coordinated measures to increase their industrial complementation. Hence the need for industrial co-operation.

Industrial co-operation not only holds the key to the continuing growth of intra-regional trade but also to the region's success in its overall industrialization effort. It is well-known that the domestic markets of the member states which constitute ASEAN and the Andean Pact are too small to permit the efficient operation of a whole range of manufacturing industries. Smaller economies could, of course, concentrate on a limited number of carefully selected manufactured products in order to realize sufficient economies of scale. Such a pattern of selective development of manufacturing industries is known as "truncated industrialization", for which regional industrial co-operation can act as a catalyst. But truncated industrialization is most effective and efficient where there is a large neighbouring industrialized country which can readily supplement or compelement the inputs produced domestically, in the way the Japanese economy has interacted with the Korean economy. Thus regional co-operation among Third World countries does not necessarily develop into a regional autarky, but the process can well lead to closer economic interdependence with larger industrial centres outside the region.

Currently the ASEAN countries and the member states of the Andean Pact are in the process of making the crucial transition from import-substitution industrialization to that based on export expansion. Indeed,

regional co-operation can facilitate industrial development under both phases. In the short run, regional co-operation offers the opportunity for member countries to pool their domestic markets and therefore operates as a convenient arrangement for the extension of the import-substitution process. But some economists have warned developing countries against the temptation of taking advantage of such short-term gains which would result in the prolonging of the otherwise stagnating import-substitution phase through the creation of an artificially expanded regional market. One noted economist has stated in no uncertain terms: "a region in which all member countries base their trade and development strategies upon a co-ordinated approach to IS (import-substitution) would be doomed to failure."[1/] Regional co-operation would work best when member countries are in the initial stage of looking outward for export expansion. In this way, regional grouping is linked up with the more positive industrialization strategy based on sharing export expansion. This can be done by structuring regional co-operation arrangements towards the promotion of more outward-looking industries and towards capturing world-wide opportunities for trade expansion. There are clear advantages for a regional body to formulate a common export promotion strategy, because many export promotion measures can be more cheaply and efficiently implemented through a regionally co-ordinated framework.

The significance of industrial co-operation among developing countries can further be envisaged in a "dynamic" context. In the long run, industrial co-operation can lead to co-ordinate industrial planning on the regional scale, which will increase the industrialization potential of the region as a whole. Furthermore, the processes of regional industrial co-operation and the region's industrial development can feed on each other. Industrial co-operation provides an impetus for further industrial growth in the region through opening up opportunity for the establishment of new industries to take advantage of the regionally-based division of labour and specialization of production. At the same time, rapid industrial growth will increase the capacity and flexibility of the region for greater industrial co-operation.

It was in recognition of the importance of industrial co-operation as a key strategy for regional economic co-operation and of its potential impact on a region's overall industrialization progress that the ASEAN-Andean Pact Conference on Regional Industrial Co-operation was convened in October 1982 in Lima. The main objective of the Conference was to

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1/ Ann O. Krueger, "Regional and Global Approaches to Trade and Development Strategy", in Ross Garnaut, (ed.), ASEAN in a Changing Pacific and World Economy (Canberra: Australian National University Press, 1980).

review the progress of industrial co-operation in these two regions as well as to provide a forum for the ASEAN and Andean Pact member countries to exchange views and experiences regarding their respective efforts towards various forms of regional economic co-operation, particularly industrial co-operation. The experiences gained by these two regions in their past and current efforts towards regional economic co-operation could be instructive for other Third World countries.

By and large, the constituent members of ASEAN and the Andean Pact belong to what the World Bank has categorized as the middle-income developing countries, sharing a remarkable degree of similarity in their respective levels of socio-economic development, as shown in Table 1. The notable difference between the two groups is that most Andean Pact countries are smaller in population size and tend to be more urbanized than the ASEAN countries excepting Singapore. In terms of economic growth performance, however, the ASEAN countries seem to be more "dynamic", especially during the last decade, as reflected in the major performance indicators compiled in Table 2. In the long run, rapid economic growth can facilitate regional economic co-operation.

Table 1. Some basic socio-economic indicators of ASEAN and the Andean Pact

	Area ($1000 m^2$)	Population (millions)	GDP (US $ million)	GDP per capita (US $)	Life expectancy at birth (years)	Average annual growth of population	% of labour force in agriculture		Urban popular (%) of total population		Population per physician	Daily per capita calorie supply in % of requirement	Adult literacy (%)	No. enrolled in secondary school, as % of age group
		Mid-1980	1980	1980		1970-80	1960	1980	1960	1980	1972	1977	1977	1979
ASEAN														
Indonesia	1,919	147	63	430	53	2.3	75	58	15	20	13,670	102	62	22
Malaysia	330	14	23	1,620	64	2.4	63	50	25	29	7,640	116	-	52
Philippines	300	49	34	690	64	2.7	61	46	30	36	2,810	107	75	63
Singapore	1	2.4	11	4,430	72	1.5	8	2	100	100	1,250	135	-	59
Thailand	514	47	31	670	63	2.5	84	76	13	14	8,220	97	84	29
Total	3,064	259	162	625										
Andean Pact														
Bolivia	1,099	6	3	570	50	2.5	61	50	24	33	1,850	87	63	35
Colombia	1,139	27	32	1,180	63	2.3	51	26	48	70	1,970	98	-	46
Ecuador	284	8	10	1,270	61	3.0	58	52	34	45	1,570	90	81	49
Peru	1,285	17	16	930	58	2.6	52	40	46	67	1,530	98	80	50
Venezuela	912	15	54	3,630	67	3.3	35	18	67	83	930	102	82	40
Total	4,719	73	115	1,575										

Source: World Bank, World Development Report 1982

Table 2. Economic performance indicators

	Average annual growth rate (%), 1970-80					Manufacturing share in GDP 1980 (%)	Annual rate of gross domestic investment 1970-80 (%)	Gross domestic investment as % of GDP 1980	Average annual growth of trade 1970-80 (%)		Current account balance, (million $) 1980	Debt service as % of exports, 1980
	GDP	Agriculture	Industry	Manufacturing	Services				Exports	Imports		
ASEAN												
Indonesia	7.6	3.8	11.1	12.8	9.2	9	14.4	30	8.7	11.9	2,872	8.0
Malaysia	7.8	5.1	9.7	11.8	8.2	23	10.3	29	7.4	7.0	-470	2.3
Philippines	6.3	4.9	8.7	7.2	5.4	26	10.5	25	7.0	7.1	-2,046	7.0
Singapore	8.5	1.8	8.8	9.6	8.5	28	6.7	43	12.0	9.9	-1,577	1.1
Thailand	7.2	4.7	10.0	10.6	7.3	20	7.7	22	11.8	5.4	-2,280	5.2
Andean Pact												
Bolivia	4.8	3.1	4.3	6.0	5.7	14	2.9	15	-1.6	8.9	-115	25.9
Colombia	5.9	4.9	4.9	6.3	7.0	22	5.4	25	1.9	5.7	-25	9.6
Ecuador	8.8	2.4	12.1	9.8	9.4	8	8.8	23	7.5	9.9	-575	14.0
Peru	3.0	-	3.7	3.2	3.5	27	2.3	19	3.9	0.2	618	31.3
Venezuela	5.0	3.8	3.0	5.7	6.5	16	-	25	-6.7	-10.9	-4,240	13.2

Source: World Bank, World Bank Report 1982.

Chapter II

ASEAN INDUSTRIAL CO-OPERATION

(a) Overall evaluation and framework

The association of Southeast Asian Nations (ASEAN) was formed in August 1967 in Bangkok by Indonesia, Malaysia, the Philippines, Singapore and Thailand. As stated in the ASEAN Declaration, one of the overall objectives of ASEAN is to "accelerate the economic growth, social progress and cultural development in the region through joint endeavours in the spirit of equality and partnership."

During the first part of its existence, the ASEAN organization was relatively little known even to the general public of the region, although regionalism was not an entirely new phenomenon as in fact the region had made several unsuccessful attempts at some form of regional grouping prior to ASEAN. Nonetheless, the failure of previous efforts in regional grouping and the limited progress of ASEAN towards regional co-operation in its inital period serve to underscore the inherent obstacles to regionalism in Southeast Asia. It may be noted that ASEAN is one of the world's most heterogenous regions in terms of culture, languages, ethnicity, religions, history and traditions. Great disparity also exists among the member countries in respect of physical area, population size, and stages of economic development.

In 1975 the drastic political change in Indo-China resulted in the stiffening of the political will of the ASEAN leaders for a more active approach to regional co-operation. Meanwhile, a string of international economic crises starting with the oil price adjustments in 1973 had further increased the awareness of the ASEAN countries of their economic vulnerability, an awareness which culminated in the convening of the first ASEAN Summit in Bali in Feburary 1976, attended by the five Heads of State.

The Bali Summit led to the signing of the Declaration of ASEAN Concord, which marked a milestone in the history of ASEAN co-operation. Apart from endorsing the development of regional unity and regional identity, the Declaration puts forward a programme of action as the

framework for ASEAN co-operation. Specifically for economic co-operation, it highlights four areas: (a) on basic commodities, particularly food and energy, member countries agree to provide each other priority access to supplies and markets in critical circumstances; (b) in industrial development, member countries will establish large-scale regional industrial projects, particularly those which would contribute to the basic needs of the region and would utilize local raw materials; (c) in trade, member countries will strive to promote intra-ASEAN trade through preferential trading arrangements and greater access to extra-regional markets; and (d) member countries will take a unified stand in approaching international commodity and other world economic issues.

At the Bali Summit, the Heads of ASEAN Governments also signed the Treaty of Amity and Co-operation in Southeast Asia as well as agrred to establish the ASEAN Secretariat. ASEAN had started without a formal charter and without a central co-ordinating secretariat. Prior to the Bali meeting, the annual meeting of ASEAN Foreign Ministers ("Ministerial Meetings") together with a standing committee constituted the only institutional machinery. As various co-operation schemes were considered and proposed in Bali, a more formal organization structure was deemed necessary. Hence the decision to set up a central secretariat.

The ASEAN Secretariat is located in Jakarta, the capital of ASEAN's largest member, Indonesia. Charged with administrative and co-ordinating functions, the ASEAN Secretariat operates under the leadership of a Secretary-General. Three bureaus, in charge of economic, science and technology, and social and cultural affairs, have been created, with the Economic Bureau being, perhaps, the most important.

The ASEAN Declaration also stipulates that ministerial meetings on economic matters be held regularly or when deemed necessary. With the focus of ASEAN activities shifting to economic co-operation after the Bali Summit, the ASEAN Economic Ministers' Meetings (AEM) have assumed increasing importance relative to the regular ASEAN Foreign Ministers' Meetings. The ASEAN Economic Ministers direct all economic co-operation activities through five powerful Economic Committees, each of which is hosted by an ASEAN member country, as follows:

1. The Committee on Industry, Minerals and Energy (COIME), hosted by the Philippines.

2. The Committee on Food, Agriculture and Forestry (COFAF), hosted by Indonesia.

3. The Committee on Finance and Banking (COFAB), hosted by Thailand.

4. The Committee on Transportation and Communications (COTAC), hosted by Malaysia.

5. The Committee on Trade and Tourism (COTT), hosted by Singapore.

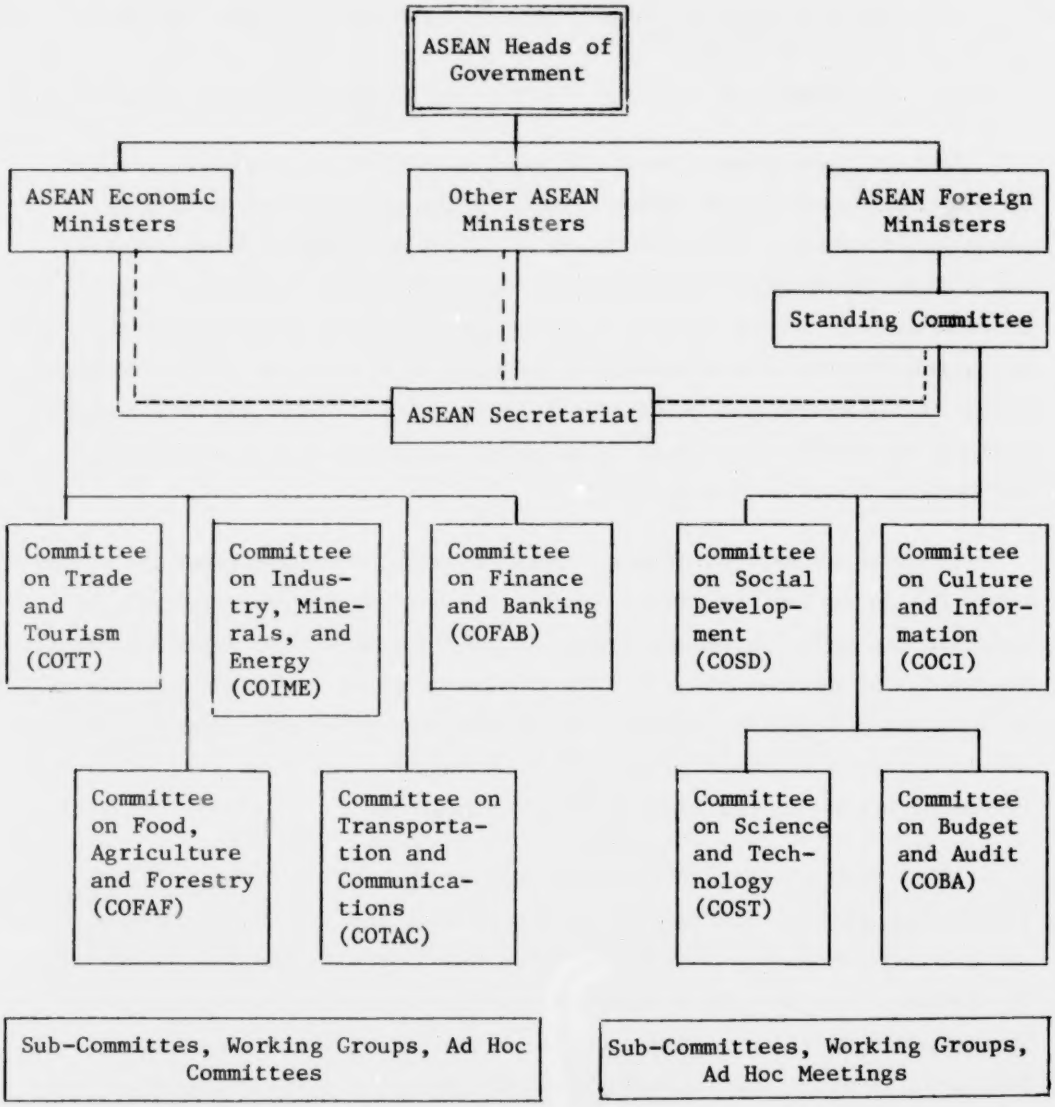
Each of these Committees is in turn supported or serviced by a host of sub-committees, expert groups, working groups and other variously named subsidiaries. COTT, for example, has a sub-committee on Tourism and a Trade Preferences Negotiating Group; COFAB has a Working Group on Customs Matters and an Experts Group of ASEAN Central Bank/Monetary Authorities; COTAC has a sub-committee each in the fields of Land Transportation, Shipping and Ports, Civil Aviation, and Posts and Telecommunications, in addition to lower level subsidiaries such as the Joint Ad Hoc Working Group on Shipping.

In broad terms, the primary tasks of these five Committees are threefold: (1) To review the proposed basic guidelines covering economic co-operation in their particular area and submit them to the ASEAN Economic Ministers for deliberation; (2) To review proposed projects with the aid of an interim technical secretariat in the Committee host country and selected groups of experts; and (3) To submit project proposals and recommend action to the ASEAN Economic Ministers.

Apart from the formally constituted groups, other official ASEAN bodies such as the ASEAN Boards of Investments and the Governors of ASEAN Central Banks/Monetary Authorities have also formally and informally met to discuss those aspects of ASEAN economic co-operation under their purview. In short, as ASEAN economic co-operation activities have developed in scope and intensity over the years, the ASEAN organization structure has also grown, giving rise to a large number of working committees and ad hoc meetings at the lower level. Chart I sketches out the main organizational features of ASEAN.

CHART I

ORGANIZATIONAL STRUCTURE OF ASEAN


ASEAN Heads of Government
ASEAN Economic Ministers
Other ASEAN Ministers
ASEAN Foreign Ministers
Standing Committee
ASEAN Secretariat
Committee on Trade and Tourism (COTT)
Committee on Industry, Minerals, and Energy (COIME)
Committee on Finance and Banking (COFAB)
Committee on Social Development (COSD)
Committee on Culture and Information (COCI)
Committee on Food, Agriculture and Forestry (COFAF)
Committee on Transportation and Communications (COTAC)
Committee on Science and Technology (COST)
Committee on Budget and Audit (COBA)
Sub-Committees, Working Groups, Ad Hoc Committees
Sub-Committees, Working Groups, Ad Hoc Meetings

(b) Trade and industrial development in ASEAN

This section is devoted to a discussion of the trade and industrialization strategies of the ASEAN countries. A sketch of the salient trade and industrial features of the individual ASEAN countries would be a useful base for an effective assessment of the scope and potential of ASEAN economic co-operation in the subsequent sections.

The ASEAN economies are by nature trade-oriented, with each having a large external sector and a generally high trade-output ratio. These economies belong to the export-propelled type in the sense that their economic growth is largely derived from their export growth. With the exception of Singapore, the ASEAN economies are heavily dependent on primary exports. The ASEAN region as a whole annually exports over 80 per cent of the world's natural rubber, palm oil, tin and coconut products, in addition to a relatively high proportion of its other commodities of mineral and agricultural origin, including rice and petroleum. Most of these primary products are destined to the industrial countries of OECD, including Japan. Consequently, trade is both an engine of ASEAN's economic growth and a mechanism by which the ASEAN economies become highly dependent upon the industrial world.

The structure of ASEAN's economic dependency is well expressed in its pattern of trade relations. In the 1960s, over 70 per cent of ASEAN's exports went to the industrial countries, which in turn supplied over 65 per cent of the region's total imports. Although in the 1970s, these proportions had been somewhat reduced (roughly down to around 60 per cent) they remained basically high. Moreover, trade dependency is but one aspect of the region's overall system of economic dependency on the industrial countries, which includes, apart from trade, finance, capital as well as direct foreign investment and technology. It may be stressed that ASEAN's dependent economic relationship on the industrial countries has not been working entirely to ASEAN's disadvantage. To be sure, the ASEAN economies, through such close linkages with the industrial economies, have been able to capture and use the international market forces for their own high economic growth.

Nonetheless, there is wide consensus among policy-makers in ASEAN, along those in other parts of the developing world, that a price has been paid for their economic over-dependence on the industrial countries in the form of subjecting their open economies to the

constant ebbs and flows of the international market system. Throughout the 1970s, the ASEAN economies have indeed experienced large "ups and downs" in the process of their economic growth, due to commodity price fluctuations, recession in the industrial countries, and then rising protectionism. It is therefore a vital necessity for ASEAN to diversify its external economic relations with a view to reducing any excessive dependence on the industrial countries. One effective means to fulfil this objective, as is often argued, is to promote regional self-reliance through greater economic co-operation.

As one consequence of ASEAN's high trade dependence on the industrial countries, the volume of intra-regional trade among the ASEAN countries is relatively low. In the early 1960s, the share of intra-regional trade was around 9 per cent. The share has since been increased to around 15 per cent in the late 1970s. It is, however, misleading to suggest that the formation of ASEAN has brought about this sharp rise in the level of intra-regional trade, because much of the "growth" was largely due to changes in the statistical coverage. Traditionally, the intra-ASEAN trade was heavily concentrated in the sub-grouping comprising Singapore, Malaysia and Indonesia, involving movements of primary products, foodstuffs, and other traditional items. It may be added that the predominance of the traditional products in the intra-ASEAN trade actually constitues a structural constraint on its growth.

Indeed, the lack of immediate growth potential in intra-ASEAN trade may initially have encouraged the argument, on the basis of the old therory of customs union, that the factor endowments of the ASEAN countries seemed so similar to each other that further integration would only result in more tarde diversion than trade creation. However, one has to bear in mind the static assumptions on which such theoretical arguments are based. In practice, economic policies are rarely formulated within a narrow, purely economic framework as is sometimes postulated by the neo-classical economists, but are in fact based on wide-ranging dynamic considerations. Viewed in this light, the present limited growth of intra-ASEAN trade should not be taken to reflect the absence of real benefits from future regional economic integration. In actual fact, the argument may well be posited reversely: the low volume of intra-ASEAN trade turnover may be viewed as pointer at the existence of potential for future growth.

ASEAN's high trade dependence on the advanced countries, and in fact much of the structural weakness in ASEAN's foreign trade sector, arises from, or is aggravated by, its high commodity concentration. Commodity concentration is not a special ASEAN problem, but is familiar to almost all the post-colonial economies depending on primary exports. The whole problem can be viewed from two angles: the short-term instability of markets for primary products as reflected in wide year-to-year fluctuations in prices and export earnings; and the adverse long-term price trends as reflected in the deteriorating terms of trade and the slow growth in export earnings. From the perspective of the developing countries, ASEAN included, these problems are compounded by the fact that whilst the prices of most of their primary products face a long-term declining trend, the prices of their manufactured imports from the developed countries, fuelled by rising inflation, have risen steadily over the years.

ASEAN as a major exporter of primary products would clearly stand to gain if the long-term price trends of its main primary exports were steadily moving up and were sustained, so that greater resources could be transferred to the region for development. In the long run, ASEAN needs to develop its own comprehensive commodity strategy for the more efficient management of its primary resources in the face of the rapidly changing international economic environment. This would include diversification and various stabilization measures. Ultimately, successful operation of any commodity policy depends on many crucial external factors emanating from the advanced countries as much as on its effective implementation on the part of the primary exporting countries. This means that ASEAN could take advantage of the regional framework to bear on the individual industrial countries or to negotiate with them as a group (e.g. the EEC) on matters such as the reduction of their effective protection of processed primary products. An effective commodity policy also cannot be divorced from joint international action as reflected in some successful international commodity agreements. ASEAN could also do well in other international arenas if it were to act in unison by following a regional approach.

While the overall trade structure and pattern of ASEAN has provided a fertile ground for greater regional economic co-operation, the restrictive trade policies pursued by some ASEAN countries, especially the more inward-

looking members, have not been generally conducive to that effort. The Indonesian tariff regime, for instance, is quite protective. The tariffs escalate steeply, with tariff rates rising from earlier to later stages of fabrication in the production process, so that the rates are much higher for final consumer goods than for intermediate and capital goods. To this must be added in many cases the virtually prohibitive non-tariff barriers in the forms of quantitative restrictions and cumbersome customs regulations and procedures. The same pattern, though perhaps to a lesser degree, is repeated in the Philippines and Thailand. In the case of Malaysia, the overall system of protection is less severe than the above three countries, although the average effective rates remain quite high, varying according to industries. Singapore, traditionally an entrêpot-trade centre and with an open economy, has the most liberal form of trade system in ASEAN. The protectionist trade policy in Singapore was mild even when it was first introduced in the 1960s to promote industrialization; protection and restriction were altogether removed by the middle of the 1970s.

It is generally recognized that the restrictive trade strategies followed by most ASEAN countries have, on balance, produced unfavourable effects on their economies, largely by distorting their economic structures. The original intentions of such policies were to discourage the importation of consumer goods so as to stimulate industrialization. As a result, a number of less efficient industries of import-substitution type sprang up, while export industries suffered and the balance-of payments situation deteriorated. Clearly, such an inner-directed development pattern would not be conducive to regional economic co-operation: (1) a restrictive trade protection system would be likely to be harmful to regional trade and (2) the industrial structure built under import-substitution would be likely to pose more obstacles to regional industrial co-operation, as will be more fully discussed in the next section.

(c) Industrialization strategies of the ASEAN countries

The basic rationale behind the determined efforts of the ASEAN countries to push ahead with their industrialization programmes is clear. A common aspiration among the leaders of the developing countries throughout most of the postwar period has been to industrialize rapidly; manufacturing industries were to provide a dynamic force for economic progress

towards high standards of living and full employment. Underlying this notion was often also their argument that the post-colonial economic structures in their countries, heavily dependent upon primary exports, did not have the capacity to lead to a real development breakthrough, partly because of limited spread-effect of their past traditional trade-led type of economic growth, and partly due to unfavourable long-term movements in the prices of their major primary exports.

The industrialization strategies that were initially promoted throughout the ASEAN region, were the familiar import-substitution strategies. The problems of the import-substitution industrialization are well known. Suffice it to say that industries set up behind protective tariffs tend to be small, inefficient and inward-looking, so that they can rarely look beyond their national boundaries to the competitive foreign markets. Nevertheless, the process of import-substitution constituted a major source of industrial growth for the ASEAN region during the 1960s and to a significant extent during the 1970s. Starting in the 1970s, the ASEAN countries, with perhaps the exception of Indonesia, have been making serious attempts to transform their industrial sectors from import substitution to export expansion.

Thus in Malaysia, import-substitution was a major source of its industrial growth for the period 1959-68. For Thailand, most industries showed positive import-substitution throughout the period 1960-72. In the case of the Philippines, with the longest industrialization history in the region, the import-substitution process really spanned two decades, starting from the early 1950s. By comparison, Indonesia is the late comer, with import-substitution industrialization started in earnest only in the late 1960s or the early 1970s. Singapore has been the exception to the general pattern having set up export-oriented industries from the start, and hence achieved successful transition to "export-substitution" by the early 1970s.[1/]

Largely as a result of the import-substitution strategy, certain structural issues or problems have emerged in the process of industrialization which are common to the manufacturing sector of most ASEAN countries.

1/ For a more detailed discussion of the industrialization problem of ASEAN, see John Wong, ASEAN Economies in Perspective: A Comparative Study of Indonesia, Malaysia, The Philippines, Singapore and Thailand (London: MacMillan Press, 1980, second printing), Chapter 3.

These problems will pose some obstacles to ASEAN industrial co-operation efforts.

Firstly, the ASEAN economies are still highly dependent on manufactured imports, despite years of industrialization efforts. This is in part due to the operation of import-substitution, which tends to replace only consumer goods plus some categories of intermediate goods while on the other hand the import demand for producer's goods, industrial raw materials and energy in value terms is often well in excess of the reduction in the import of consumer goods. Thus import-substitution-based industrialization in ASEAN countries has in effect contributed significantly towards a deterioration of their balance of payments situation.

Secondly, the internal structure of the manufacturing sector of all the ASEAN countries has developed a peculiar dualistic pattern. On the one hand, it is characterized by the proliferation of "small" industries, typically reflecting the early stages of industrial evolution. On the other hand, a small number of large establishments tend to dominate the whole industrial scene in terms of output and capitalization and even employment. In the Philippines, for instance, establishments with more than 20 workers in 1971 represented only 20 per cent of the total number of establishments but accounted for 84 per cent of total employment, 95 per cent of industrial value added and 96 per cent of fixed capital assets. Such a heavy concentration of industrial activities in large firms reflects the past biased preference of the ASEAN governments as well as distortion due to the working of the import-substitution policy. Consequently, the structure of the manufacturing sector in most ASEAN countries remains rigid, unbalanced and fragmented making it inherently more difficult for it to enter into large-scale industrial co-operation on a regional basis.

Thirdly, a further feature of the industrial imbalance in the ASEAN countries except Singapore is the high degree of geographical concentration of industrial activities, which seems even more conspicuous than the pattern of industrial concentration based on large-scale firms. Thus modern industries are heavily concentrated in Java, in the west coast of Peninsular Malaysia along the tin-and-rubber belt, in the Metropolitan

Manila region and in Greater Bangkok, much in line with the regional population imbalances and regional income disparities that prevail in the ASEAN countries. To some extent, the present lopsided locational patterns have been the unanticipated consequences of the past development policies, e.g., industries set up under import-substitution in the region naturally congregate in big cities as these industries are producing primarily for consumption in the urban enclaves. Suffice it to say that regional industrial imbalance in the individual ASEAN countries could also complicate arrangements for regional industrial co-operation.

Finally, discussion of ASEAN's pattern of industrialization is not complete without proper reference to the role played by foreign investment. On account of the openness of the ASEAN economies, coupled with the promotional efforts of the national governments to attract foreign investment through various packages of incentives and concessions, there is now a high degree of foreign economic participation in their national economies. Much of the region's foreign investment originally stemmed from a colonial background, initially operating in areas connected with the natural resources sector and trading. Later, foreign capital was increasingly drawn into the manufacturing sector in response to the promotional policies of the host governments. Hence in ASEAN there is now a general pattern of concentration of foreign capital in the chemical-based and metal-based industries, which usually require large-scale operations and modern technology. This is not the place to discuss the standard of performance of foreign enterprises in ASEAN. On the whole, they have responded well to some major economic objectives in most ASEAN countries. If foreign enterprises have already exerted such extensive influence on the manufacturing sector of the ASEAN economies, the question then arises: Would it not be realistic to include foreign enterprise participation in some form or other in the process of regional economic integration? An even more appropriate question would be: Could foreign economic components be utilized at some stages to accelerate the region's industrial co-operation efforts?

In recent years, the ASEAN economies are undergoing rapid structural changes in response to domestic and international challenges. For the ASEAN countries, the lessons of the 1960s are well learned, and efforts are being taken to liberalize their economies and render them more outer-directed. Thus the trade regimes have been progressively rationalized and exports industries promoted. For the manufacturing sector as a whole,

there are clear signs that it is in the throe of making the transition from import-substitution to export expansion.

Singapore's manufacturing sector is almost exclusively oriented towards the export markets. Nonetheless, the industrial structure in Singapore is being vigorously transformed towards more capital-intensive activities due to labour shortages and rising labour costs. In the process, labour-intensive industries are being phased out while efforts are increasingly concentrated on the development of skill-intensive and high value added industries.

As a late-comer in the industrialization scene, Indonesia stands in great contrast to Singapore in the development pattern. Most industrial activities in Indonesia are predominantly in the import-substitution phase, sustained by restrictive tariffs and prolonged by a huge domestic market as well as the foreign exchange earnings of oil exports of the 1970s. Still changes are unmistakable over the past few years. There are two compelling reasons for Indonesian policy makers to adopt measures to accelerate industrial restructuring. Firstly, it has become obvious to the Indonesian Government that the existing import-substitution strategy has not been effective in terms of employment creation. Secondly, the growth of extractive exports, particularly the depletable petroleum which alone accounts for nearly 70 per cent of its total exports, is not likely to continue beyond the mid-1980s as the locomotive for the Indonesian economy. Thus Indonesia is reorienting its development strategy for a more diversified industrial base. Many industries have to be restructured for greater efficiency and made more outward-looking.

The problems and prospects of industrial expansion for Malaysia, the Philippines and Thailand seem to be those that fall between the polar cases of Singapore and Indonesia. These three countries are likely to press for a more rapid growth of manufactured exports, which have already started in the late 1970s. Industrial restructuring is being pursued more vigorously as it becomes clear that the relatively easy initial period of import-substitution based on simple fabrication for domestic consumption is over. Industries will have to be upgraded towards the second round of import-substitution in the manufacture of intermediate and capital goods as to form main source of their industrial growth. At the same time, efforts for the development of labour-intensive industries geared to the foreign markets will be intensified.

As the manufacturing industries of ASEAN are, in various ways, geared up to the challenge of the 1980s, the international economic environment, due to the slackening of world trade and the reduction of international flows of capital and technology, has made it much more difficult for ASEAN to continue its high industrial growth. It is beyond doubt that the export markets for manufactures will be highly competitive in the 1980s. Some ASEAN export industries will face stiff competition from the sucessful NICs - newly industrializing countries - such as Hong Kong, and the Republic of Korea; while others will be affected by the resurgence of the Chinese economy and its re-integration into the world market. If China were to be successful in its economic modernization effort in the immediate future, it would have enormous capacity to mount a large-scale export drive based on low-cost labour-intensive activities, with serious repercussion on some of ASEAN's own budding export industries, e.g. some ASEAN textiles industries. Moreover, the industrially advanced economies, hit by a prolonged recession, are increasingly taking to stringent protectionist measures against manufactured exports from the developing countries with the effect of making the world market for manufactured exports more and more like a zero-sum game.

It can be cogently argued that the rise of domestic and international problems in the 1980s could actually create greater opportunity for more serious regional economic co-operation endeavours. To cope with mounting protectionist barriers in the industrial countries, the ASEAN countries will find it more effective to act as a group in pressing for significant tariff concessions from advanced countries through such mechanisms as multilateral trade negotiations (MTN), or for easier access to the markets of these countries through the GSP schemes. The bargaining advantage of a regional economic co-operation framework is more obvious in times of economic crisis. Meanwhile, as the manufacturing industries in ASEAN are forced to undergo structural adjustments to meet new international and domestic pressures, the scope for regional industrial co-operation will also increase. With a more efficient and outward-looking industrial structure, member countries will have greater flexibility to go into various forms of regional co-operation.

(d) The techniques of ASEAN economic co-operation

The basic techniques and strategies for ASEAN economic co-operation were laid down in the Declaration of ASEAN Concord. Broadly speaking, economic co-operation in ASEAN is proceeding on three fronts: (1) trade liberalization; (2) industrial co-operation; and (3) a variety of agreements and accords initiated by various government bodies, semi-government organizations and the private sector. Activities in the third area range from the relatively more significant efforts such as arrangements for the priority supply of rice and petroleum or money swapping, to those obviously of more symbolic value such as pledges by some trade or professional organizations to increase mutual contact. In the long run, all joint activities in the three areas are interrelated and will operate to enlarge the scope for regional economic co-operation and increase its momentum. Even the many gestures in social and cultural areas, which apparently lack real substance right now, may also serve the cause of regional economic co-operation directly and indirectly through popularizing the very notion of regionalism.

In concrete terms, however, real progress towards integration will have to come through advance in either trade or industrial co-operation. Hence in the formal sense, the main thrust of the overall ASEAN economic co-operation strategies is crucially hinged on the first two fronts: trade liberalization and industrial co-operation. This was in fact foreseen by a United Nations Study Team, headed by Mr. G. Kansu, with the British econonomist, Professor E.A.G. Robinson acting as a Senior Adviser.[1/]

At the request of ASEAN, the United Nations Study Team was organized to look into the scope of economic co-operation for ASEAN and to identify possible ways and means for more concrete co-operation action. The UN Team recommended three major techniques for regional economic co-operation: (i) trade liberalization through preferential trading arrangements, aimed at promoting intra-ASEAN trade and greater specialization between member countries; (ii) industrial complementation arrangements, mainly undertaken by the private sector and aimed at rationalizing existing industries by introducing complementarity in production; (iii) package

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1/ 'Economic Co-operation among Member Countries of ASEAN', Journal of Development Planning, Number 7, United Nations, New York, 1974.

deal agreements for the allocation of large-scale industrial plants to be negotiated at the official level in order to launch certain large-scale industries which require a regional market to become economically viable In the circumstances the recommendations of the UN Study Team were closely followed by the ASEAN leaders in Bali and became the backbone of ASEAN's regional economic co-operation.

The UN Study Team report, without recommending any definte form for a higher level of economic integration such as a free trade area, a customs union or a common market, suggested three techniques of co-operation which should allow for a more steady growth of intra-regional trade and for a balanced allocation of large-scale industrial projects so as to bring about a more equitable distribution of benefits of regional economic co-operation. Above all, the recommendation were geared to the political reality of ASEAN as it was perceived in 1970, when a slow and cautious approach to regional co-operation was viewed to be the only politically feasible course of action. By 1976, ASEAN, under mounting external pressures, had grown more cohesive and developed a greater propensity to undertake more serious co-operation efforts. Had the UN Study Team recommended bolder and more ambitious measures for co-operation, it is conceivable that the ASEAN Heads of Governments, under the euphoric influence of the rising "ASEAN spirit" prevailing at the Bali Summit, could still have endorsed them in principle.

(e) Trade liberalization

Regional co-operation in trade does not only lead to the alteration of the trade pattern of the region, but also ultimately bears directly on the structure and pattern of the region's industrial development. Before going into detailed analysis of ASEAN co-operation in the field of industry, a brief discussion of ASEAN's practice in trade co-operation is highly warranted.

The existing low level of intra-ASEAN trade has always been the rallying point for the "regionalists", who strongly advocate a rapid growth of intra-regional trade in order to diversify the region's market base and to reduce its over-dependence on the industrial countries. However, the intra-ASEAN trade since 1976 has simply failed to take off in real terms and remains stagnant at around the 15 per cent level,

despite the implementation of some regional trade liberalization measures. In a sense, the sluggish expansion of intra-regional trade in ASEAN brings to the fore the inefficacy, at least in the intial phase, of the technique of trade co-operation adopted by ASEAN. At the same time, the stagnancy of intra-ASEAN trade also reflects the tremendous structural problems and institutional biases operating against intra-regional trade. Many of the inherent obstacles standing in the way of intra-ASEAN trade are well-known. Firstly, the existing trade and production patterns have allowed only limited absorptive capacity in the ASEAN countries for each other's major exports like rubber, tin, timber, palm-oil, and coconut products, which are primarily destined to be consumed outside the region. A notable exception is the Thai exports of rice. Secondly, the ASEAN economies at their present stages of development have almost exhausted their commercial capacities in responding to the large and growing export markets of the developed countries during the past two decades. Thirdly, the import-substitution policies together with the balance of payments difficulties faced by some ASEAN countries have resulted in certain policies which are inherently biased against regional trade; e.g. high priority for the import of capital and intermediate goods which are usually supplied by the developed countries.

To overcome these inherent difficulties, the ASEAN economies need to change their overall orientation in the long run. But in the short run, a fundamental change in the technique of regional co-operation in trade can also be effective. Trade liberalization should be more vigorously pursued and be geared towards the small and medium-scale industries with excess capacities. Ultimately, growth of intra-ASEAN trade cannot be divorced from industrial growth and industrial adjustment in the member countries.

At the Bali Summit meeting, the five governments had, in their Declaration of Concord, expressedly committed themselves to trade liberalization through Preferential Trading Arrangements (PTA). The PTA agreement, signed by ASEAN Economic Ministers in Manila in February 1977, is to provide an overall framework for the member countries to exchange trade concessions so as to expand intra-ASEAN trade. The instruments for the implementation of the PTA include extension of tariff preferences, liberalization of non-tariff measures on a preferential basis, long-term commodity contracts, purchase finance support at preferential interest

rates, and preferences in procurement by government entities. Of these instruments tariff reductions have been by far the most important. Tariff negotiations are to be conducted by the Tariff Preference Negotiating Group of the Committee on Trade and Tourism (COTT), and preferences are to be exchanged on a product by product basis. The preferences are in most cases expressed as a certain percentage of the existing import duty levied on extra-ASEAN imports of the products. In the first round, some 1,700 items were intially considered but 200 items were short-listed, out of which only 71 products were finally picked after a good deal of protracted negotiations and hard bargaining. The first round was approved in June 1977 and implemented in January 1978. Tariff negotiations are held quarterly on the basis of offer and request lists of each member country. By the middle of 1981, 5,825 product items with binding zero tariff rates or preferential margins of 20 per cent, 25 per cent or above have been exchanged. By the end of 1982, the number of commodity items approved for PTA has reached 8,527, even though most of these items carry only 10 per cent reduction.

It should be realized that the PTA still accounts for a very small percentage of the total intra-ASEAN trade, one reason being that the existing commodity-to-commodity pattern of tariff preferences involves many articles with a low trade content, especially since tariff reductions are negotiated on the basis of the BTN (Brussels Tariff Nomenclature) seven-digit level for articles that enter into world trade. In fact, a large number of the commodity items included initially in the PTA-list were actually articles so minutely refined down to the seven figures that they had almost no trade impact.

All this led to arguments that the PTA scheme based on its present structure and in this initial phase is not likely to produce much significant effect in terms of restructuring the ASEAN trade pattern towards a distinct regional orientation. It has been suggested that ASEAN could have followed a faster process of trade liberalization had it from the start adopted the more efficacious across-the-board tariff reductions, instead of the commodity-to-commodity approach. The commodity-to-commodity approach has an open-ended time frame and has given rise to cumbersome negotiations between the member states. In contrast, the big-push way of the across-the-board tariff reductions would have been interpreted as a gesture of serious intent and could well generate the

psychological stimulus needed for a significant breakthrough in intra-ASEAN trade.

However, during the last two years fresh efforts in ASEAN have been made to enlarge the general tariff cut to an average of 20-25 per cent, with the cut-off ceiling for the import value of PTA items being raised from US $50,000 to US $500,000. In addition, measures are also being taken to deepen the trade perferences by introducing a 20 per cent across-the-board tariff cut on items with import values less than US $50,000, subject to national exclusion lists on sensitive products.

In the very long run, such selective trade liberalization, operated through the lengthening and deepening the PTA scheme, could of course produce a significant impact on the region's trade structure. But the mechanism would be far more effective if the products covered could include more non-traditional items, preferably those directly related to the regional industrial projects or regional industrial complementation schemes. Hence trade liberlization, in the final analysis, is closely linked to industrial co-operation.

(f) ASEAN industrial co-operation in practice

The main thrust of ASEAN's current endeavours toward industrial co-operation is contained in two basic programmes: the ASEAN Industrial Projects (AIP) and the ASEAN Industrial Complementation (AIC) schemes. The AIP scheme seeks to establish large-scale government-initated industrial projects while the AIC programme attempts to promote greater complementarity among existing industries through private initiatives. It was felt that the private sector would be in a better position to initiate and promote AIC projects due to their extensive and pervasive network of commercial linkages, while governments would be better equipped to handle large projects involving heavy capital investments. The AIP scheme was launched immediately after the Bali Summit attracting a great deal of attention. However, its subsequent lack of quick progress has resulted in the shift of momentum of industrial co-operation to the AIC programme, which currently becomes the mainstay of ASEAN industrial co-operation efforts.

As mentioned earlier, the scope and techniques of regional economic co-operation for ASEAN adopted at the Bali meeting follow closely the

recommednations of the United Nations Study Team. Specifically for industrial co-operation, some of the findings and recommendations c the ECAFE (now ESCAP) report on "Asian Industrial Survey for Regional Co-operation" prepared in 1973 are also relevant for ASEAN's current efforts towards industrial co-operation.[1/] The techniques of industrial co-operation as recommended by these two UN reports are specially geared to the political reality of ASEAN as well as its existing industrial structure. Thus, the AIP scheme would envisage the launching of large industries on a "package deal basis" by the ASEAN governments while the AIC programme would facilitate the rationalization of existing industries, particularly the medium or smaller industries, through complementation to take advantage of the enlarged regional market.

(i) The ASEAN Industrial Projects (AIPs)

The Declaration of ASEAN Concord provides, inter alia, that member countries "shall co-operate to establish large-scale ASEAN industrial plants particularly to meet regional requirements of essential commodities, and that the expansion of trade among member states shall be facilitated through co-operation in ASEAN industrial projects". Priority is to be given to industrial projects which could utilize the raw materials of member countries, create employment, contribute to the growth of food production, and lead to increased foreign exchange earnings or savings.

Immediately after the Bali Summit, the ASEAN Economic Ministers gathered in Kuala Lumpur in March 1976 to identify and allocate the first package of ASEAN Industrial Projects (AIPs): urea projects for Indonesia and Malaysia, a diesel engine project for Singapore, a superphosphate project for the Philippines, and a soda-ash project for Thailand. Each of these five industrial projects was expected to require an investment of about US $250-300 million, with the host country taking up 60 per cent of the total equity and with the remaining 40 per cent to be equally shared out among the other four member countries. Private sector in the host

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1/ The project was sponsored by ECAFE in conjunction with the Asian Development Bank, UNDP and UNIDO, with Professor H.C. Bos as the co-ordinator for the project and Mr. A. Feraldis as the leader of the permanent team. The report was published as Document AIDC (9)/1, United Nations, N.Y. (1975).

country could take up equity participation up to 40 per cent. It was also agreed that up to 70 per cent of the infrastructural costs of these projects could be financed by foreign loans. Meanwhile, the Japanese government announced that it was ready to provide US $1 billion as loans to help finance the AIPs. But the Japanese made it clear that their financial commitments could only be extended to projects which were proved economically viable. This was also the point to which the ASEAN leaders had agreed, and they had since repeatedly stressed that economic viability of the projects must be established by feasibility studies before the final signal to go ahead be given.

In some ways the original allocation of the AIP package would seem to be fairly rational in terms of location, factor endowment, industrial strucutre, raw material supply and market potential. While the engine project would be appropriate for Singapore with her urban economy and a relatively more advanced industrial structure, the other four industries were resource-based industries clearly suitable for the other four agrarian ASEAN countries needed for the technical transformation of their agricultural sectors. Beyond such a generalization, rational allocation would also require the fulfilment of both efficiency and equity conditions before a particular project be declared viable.

The progress of the AIP scheme has, however, been slow. So far only the Indonesian and Malaysian urea projects have really come off the ground and are expected to come into commercial production by 1984. The Thai soda ash project is still in the process of feasibility study, while the remaining two projects allocated to the Philippines and Singapore have since been officially withdrawn.

The original concept of the AIPs was, as indicated earlier, based on the "package-deal technique" as recommended by the UN team. Such technique envisages a prominent role for the member governments in the identification, selection, location as well as the implementation of these projects. It is held that the direct involvement of governments in large-scale enterprises would also help ease the infrastructural bottleneck that is likely to crop up in some ASEAN countries.

There is a great deal of obvious economic sense for the ASEAN countries to undertake the package-deal approach to industrial co-operation, as cogently argued by the UN team. Industries which are not economical in any one member country could now become viable if set up on a regional

co-operation basis because of the resultant larger market. Accordingly, the economies of scale become the basic rationale for the establishment of regional industries.

The ECAFE study has shown that regional industrial projects would actually require less investment and less labour per unit of output than for similar national projects. The relative superiority of regional co-operation over non-co-operation comes out clearly in cost differences. The cost of meeting a supply deficiency is significantly less in the case of industrial co-operation than in the case of non-co-operation. Savings in costs would also be greater for industrial co-operation than in the case of importing from third countries. In fact, industrial co-operation is expected to lead to a larger positive trade balance than the alternative situation of either national autarky or complete reliance on imports from third countries.

However, it would be naive to suggest that a group of regional industries could be actually established in a manner that would really be optimal from the point of view of efficient resource allocation. Economic factors may be allowed to dictate the choice of industries for ASEAN industrial co-operation but not the geographic distribution of industries within the region, which entails political considerations as well as the complex issue of trade-off between economic efficiency and social equity. In the short run, the effects of regional co-operation could well appear much less favourable to member countries since regional industrial projects much emerge from their infancy before cost advantage could be fully realized. This raises the question of protection. The survival of the project during its infancy would then depend crucially upon the preferential treatment to be received from other member countries. Finally it should be stressed that there are many industries in the ASEAN region which could not be competitive at world market prices even if all the national markets in the region were integrated. There are many more issues like this, and they all add up to be a significant gap between theory and practice.

Taken as a whole, the AIP package is conceptually sound and appealing. In practice, however, it is not easy to identify economically viable projects which can also pass the test of political acceptability by all member countries. Good economics does not necessarily mean good politics. At the implementational level, there are a host of common problems arising

from the setting up of new capital-intensive industries, such as the minimum plant size, optimal location, adequate support from utilities and infrastructure, the style of management, the supply of labour, the mode of marketing, the method of pricing and the like, which all need careful considerations.

Urea projects: Indonesia and Malaysia

The designation of an urea project each for Indonesia and Malaysia is easy to understand. Both countries are food deficient, and are heavily depending on the import of rice to make up for the domestic shortfall. Fertilizers are therefore badly needed to step up their "Green Revolution" in order to boost food production. Furthermore, both countries have abundant supplies of natural gas, the main raw material for the manufacturing of urea. In the case of Indonesia, there are already domestic facilities for the production of urea geared to the national market.

For ASEAN as a whole, the demand for nitrogen fertilizer is expected to increase from 0.3 million nutrient tons in 1975 to 1.9 million nutrient tons by 1985, which will exceed the region's existing production capacity. At the time of the adoption of the urea project, Indonesia's nitrogen fertilizer output accounted for 71 per cent of ASEAN's total. With the implementation of the two ASEAN projects for urea, Indonesia and Malaysia would produce a substantial surplus over and above the expected needs of other ASEAN members.

Indonesia's two existing urea plants, PUSRI I and PUSRI II are located at Palembang in South Sumatra, with annual capacities of 100,000 tons and 380,000 tons respectively. In addition two more new plants have just been completed, with another two being scheduled to be completed in two or three years' time. Meanwhile, the Philippines have also laid down plans for an urea factory, with an annual capacity of 390,000 tons, to be built at Limay while Thailand's Mae Noh Industries is in the process of phasing out its urea and ammonium sulphate production.

It follows that if the ASEAN urea projects for Indonesia and Malaysia as well as the national project of the Philippines were fully taken into account, the total supply picture for ASEAN will change drastically. Total urea output would increase from 0.5 million in 1976 to 3.7 million in 1985, when all the planned projects are expected to be in production.

Indonesia became self-sufficient in urea in 1979 when its new plant in Kujang came on stream. With the completion of the ASEAN urea project at Acheh, Indonesia would have urea surplus. In the case of Malaysia, which hitherto produced no urea, overproduction would also occur once its ASEAN urea project is fully in production after 1984. Singapore, being a non-agrarian economy, would demand only a tiny quantity. In the case of the Philippines their deficit would be considerably met if its own urea plant at Limay is completed. All in all, it is clear from the start that only the Philippines and Thailand would provide the markets for the surplus urea from Indonesia and Malaysia, but also that these two markets could not absorb all the excess output of Indonesia and Malaysia if the two designated ASEAN projects were put into full capacity production. Unless ASEAN was to cultivate extra-regional markets, its urea output would run into a considerable oversupply, soon after 1985.

It might be argued that in the circumstances, Indonesia's ASEAN project at Acheh, with the planned capacity of 670,000 tons of urea and 330,000 tons of ammonia per year, should have been planned from the beginning as an export-oriented operation geared to the international market rather than as a national or regional concern, which would require protection and subsidies to become viable. Malaysia has faced no less a dilemma. Malaysia's ASEAN project at Bintulu (Sarawak), with the planned annual output of 530,000 tons of urea and 360,000 tons of ammonia, has a capacity grossly beyond Malaysia's own domestic need. Of course, Malaysia could have chosen a smaller national plant but that would involve higher unit cost with the result that Malaysia's output might not be even regionally competitive. In short, given the existing level of demand for urea in ASEAN which at present seems to remain lower than could be expected due to relatively low level of fertilizer application of farms, it has now become clear that there is simply no room in ASEAN for two new urea projects, unless they could be sufficiently competitive for the purpose of the extra-regional export markets.

Rock salt/soda ash project for Thailand

Soda ash is an important ingredient in the manufacturing of glass, although it is also used in a number of industries including sodium-based chemicals, pulp and paper, and scrap and detergents. At the time when the first AIP package was intiated, the Philippines was the largest consumer

of soda ash, accounting for 40 per cent of the total ASEAN consumption, with Indonesia and Thailand together constituting only 16 per cent. The Philippines originally indicated interest in a proposed soda ash project. The project was, however, eventually designated to Thailand mainly on the grounds that Thailand has huge rock salt deposits estimated at 2,000 billion tons, in its northeast part. The Thai soda ash project was initially estimated to cost US $233 million and would have the capacity of producing an annual output of 400,000 tons.

From the outset, there was much misgiving over this project among economists in Thailand who argued that it would not be economical for any ASEAN country to go into this line of production as it would in fact be cheaper for the region to import soda ash from outside. Concerns were also raised regarding the transport problems in Northeast Thailand. The rock salt mining site is located at Bamnet Narong about 260 kilometers from Bangkok, while the limestone quarry is near Bangkok. Both the rock salt and limestone deposits are separated from the new port of Laem Chabung by a distance of 430 kilometers, and this means that heavy infrastructural investment for a new rail link is a precondition for constructing the proposed soda ash plant. While the cost of extracting rock salt at US $3-4 per ton might be fairly competitive by world standards, the inclusion of heavy transport cost would raise the F.O.B. price of rock salt to about US $10 a ton. The construction of a new railway and the development of new port facilities would substantially reduce the transport cost eventually but this would increase the total capital cost of the project. Subsequently, the Thai Government decided to adopt the project by absorbing the entire infrastructure costs incurred in the construction of rail road and port facilities. The Thai Government held 20 per cent of the equity, with the private sector taking up 40 per cent.

The first meeting of the shareholder entities for the project, the ASEAN Soda Ash Co. Ltd. was held in Bangkok in October 1979. Presently, follwoing a recent decision by the ASEAN Economic Ministers Meeting, studies are being carried out as to the best viability of two alternatives:

(1) To retain the rock salt mine with the ASEAN Rock Salt-Soda Ash Project as earlier agreed upon but to reduce the rock salt

production capacity from 1.8 million tons[1/] to 600,000 tons per annum;

(2) To exclude the rock salt mine so as to reduce the total project cost.

The Philippines' first package AIP

Much as the other agrarian-based ASEAN countries, the Philippines wanted to develop its own chemical fertilizer industry. The selection of the phosphate fertilizer project for the Philippines was mainly based on the fact that the Philippines has abundant supply of sulfuric acid from its copper smelting plants, despite the constraint that the Philippines would have to import the other raw material for superphosphate, the phosphate rock, from outside the region.

Phosphate is second only to nitrogen in fertilizer consumption in the ASEAN region. The United Nations Study Team estimated ASEAN's demand for phosphate fertilizer would reach 416,000 tons by 1980. The production capacity of ASEAN at the time was only 71,000 tons. Hence there was a growing demand in the region for this product. The size of the ASEAN project for the Philippines was rather unambitious: its planned output was only 180,000 tons of phosphoric acid per year at a relatively small investment of US $44 million. The output would satisfy the demand in the Philippines and leave a small surplus for other ASEAN countries. But it would not in any case create such an excessive overproduction as to seriously glut the regional market.

The major problem for the Philippines endeavour was, however, cost, not excess capacity as in the ASEAN urea projects. It was estimated that the production cost per ton of the superphosphate output in the Philippines would range between US $308-379, depending on the raw material prices whereas the ruling world prices in 1977 were around US $180. The high unit cost for the proposed Philippines project was mainly due to the fact that the Philippines would have to import phosphate rock from the United States, which takes up 60-65 per cent of the total production costs. The high costs would mean that the project would require an external tariff protection to the extent of 70 per cent in order to make it commercially viable; but this would be an unacceptably high cost for the ASEAN consumers. Besides, there was another difficulty. When the Philippines opted for the

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1/ Of these 1.8 million tons of rock salt 560,000 tons would be supplied to the soda ash plant and the remainder would be locally consumed or exported. The market prospects for the rock salt are, however, uncertain.

phosphate fertilizer project, it had counted on the relatively cheap by-product of sulphuric acid from its copper smelter plants. As the world copper market slumped, this advantage was soon clouded with uncertainty. Therefore, it is not surprising that the superphosphate fertilizer project was officially withdrawn in mid-1978 on the strength of a Japanese feasibility study. As an alternative, the Philippines proposed at the Nineth COIME meeting in November 1979 to shift from superphosphates to ammonium sulphate fertilizer involving much larger investment. However, this alternative was quickly abandoned upon unfavourable findings from a feasibility study prepared by an independent consulting firm. Finally, in January 1982 the ASEAN Economic Ministers Meeting approved as a Philippines' AIP a copper fabrication project.

Diesel engine project: Singapore

The Singapore project for diesel engines has been perhaps the most controversial in the first ASEAN AIP package. Diesel engines are usually classified according to application or HP (horse-power) range. Major stationary applications of diesel engines below 20 HP are primarily for power-tillers, rice hullers, small water pumps and other agricultural implements, while larger HP ranges of stationary variety are used as power generators, air compressors and as power units for tractors and construction vehicles. Diesel engines are also widely used for various types of marine crafts. All in all, the region offered a fast-growing market for diesel engines of smaller HP, especially since the existing production capacity in the region was inadequate to meet the growing demand.

Most of the region's diesel engine production capacity was confined to less than 300 HP and was concentrated in Indonesia, Malaysia and the Philippines, as neither Thailand nor Singapore manufactured or assembled diesel engines. Furthermore, Indonesia, Malaysia and the Philippines had firm plans to expand their existing production capacity of engines below 500 HP, while Thailand was moving into small stationary engines within 5-50 HP range. In the case of Singapore, plans were also on hand for manufacturing marine engines of large HP. The picture is quite clear. The bulk of the region's demand for diesel engines was confined to small HP range; but the potential residual market for smaller diesel engines would soon become extremely narrow once the various national plans for diesel engines were completed.

The designated ASEAN diesel engine project for Singapore at the cost of US $200-300 million was planned for a wide range of HP from 5-12,000, with the annual output of 100,000 units, the bulk of which would have to be for exports in the region. At the Nineth COIME meeting in November 1979, Singapore made it clear that it could not go ahead with the assigned project unless other member countries shelved their own national diesel engine plans. At the same time, Indonesia opposed Singapore for going into diesel engine below 500 HP, rendering the Singapore project commercially unviable. In the end, Singapore abandoned the ASEAN diesel engine project.

The second package of AIPs

While the numerous initial problems related to the first AIP package were still being tackled, the Second ASEAN Summit in Kuala Lumpur in August 1977 went ahead to identify for prefeasibility study seven further new projects as the second AIP package, namely, newsprint, potash, metal working machine tools, electrolytic tin plating, heavy-duty tyres, TV picture tubes, and fisheries.

These seven projects have been allocated for the purpose of pre-feasibility study to member countries as follows:

Indonesia : heavy-duty rubber tyres
Malaysia : metal working machine tools
Philippines: newsprint and electrolytic tin-plating
Singapore : TV picture tubes
Thailand : potash and fisheries.

The selection of heavy-duty tyres for Indonesia seems appropriate because not only is there a large and growing demand for heavy-duty tyres but also the region itself is the major producer of the basic raw material, natural rubber. On the surface of it, Malaysia should have put up a bid for this project as Malaysia is the most significant producer of natural rubber in the region and Malaysia is the only ASEAN country which is currently exporting heavy-duty rubber tyres. However, Indonesia was given the rubber tyres project on grounds that Indonesia had been heavily dependent on imports of rubber tyres.

There are considerable scale economies in the manufacturing of machine tools, products of which ASEAN has a considerable demand. It would seem that Singapore would be a strong contender for such manufacturing. However,

Malaysia having no existing plants producing machine tools was given the allocation for the ASEAN machine tools project.

ASEAN has sufficient tropical timber resources as raw materials for the production of newsprint, and all ASEAN countries except Singapore have existing newsprint capacity. The Philippines was expressing the strongest interest for this project and even suggested it as a substitute for its ill-fated superphosphate project in the first AIP package. The Philippines was also allocated the electrolytic tin plate project, even though also Malaysia as well as Thailand and Indonesia are major producers of tin.

The ASEAN countries still depend on imports of TV tubes, particularly colour TV types. At the same time, all the ASEAN countries are making efforts to expand their TV tube output to meet domestic demand. Originally Singapore took up the TV tube project as a substitute for its abandoned diesel engine project. However, Singapore soon came to realize that the ASEAN market for colour TV picture tubes would be too small to support an economic-sized ASEAN plant. Accordingly Singapore went ahead with the TV tube manufacturing as its own national project aiming at the world market.

The region's entire potash consumption at the time of adopting the second AIP package was met by imports, and the inclusion of a potash project in the second package was therefore considered rational. Thailand was assigned this project because Thailand was then the region's largest potash consumer, Thailand was also assigned the fisheries project as Thailand's fishing industry was the most developed in the region.

Thus, the second AIP package has been assigned to the respective ASEAN countries in various ways and for various reasons. Currently, most of these projects are still in the stage of planning and feasibility study, with a few ready for the initial phase of implementation.

(ii) The ASEAN Industrial Complementation (AIC) programme

Evolution of the programme

Industrial complementation can take many forms. One type of complementation agreement provides for the establishment in each member country of an integrated industrial plant covering all stages of the manufacturing process from raw materials to finished products with a portion of the out-

put to be supplied to the other participating countries. In this way, the participating industry will be able to specialize in a particular product in the vertical manner and will stand to benefit from the enlarged regional market. Another type of complementation agreement provides for horizontal specialization, by which member countries can spcialize in producing different components or parts for the same products, which will then be shipped to other member countries for the final assembly or finishing. Finally, complementation can also operate by combining both vertical and horizontal specialization.

Following the approval of the first AIP package at the Bali Summit, steps were soon taken to work out the basic guidelines for industrial complementation. As the AIP scheme was running into difficulties and losing momentum, the foucs of ASEAN industrial co-operation shifted to industrial complementation, leading to the signing of the Basic Agreement on ASEAN Industrial Complementation by the ASEAN Foreign Ministers in October 1980. The most important provisions of the Agreement are as follows:

1. An AIC package must be participated in by at least four of the five member countries, unless otherwise approved by the ASEAN governmental organizations.

2. Identification of products for inclusion in an AIC package shall be done by the ASEAN Chambers of Commerce and Industry (ASEAN-CCI); while approval of the package and associated trade preferences shall be undertaken by the ASEAN governmental organizations.

3. The products in the AIC package shall receive the "exclusivity privileges", lasting for two years for existing products, or three years for new products.

In view of the dominant role played by the private sector in the largely market-oriented mixed economies of ASEAN, the AIC programme, in enlisting the active participation of the private sector, may well be the most effective avenue for achieving industrial co-operation in the long run.

The institutional machinery for the AIC programme

Two of the five economic committees, namely the Committee on Industry, Minerals and Energy (COIME) and the Committee on Trade and Tourism (COTT), which serve the ASEAN Economic Ministers are heavily involved with the

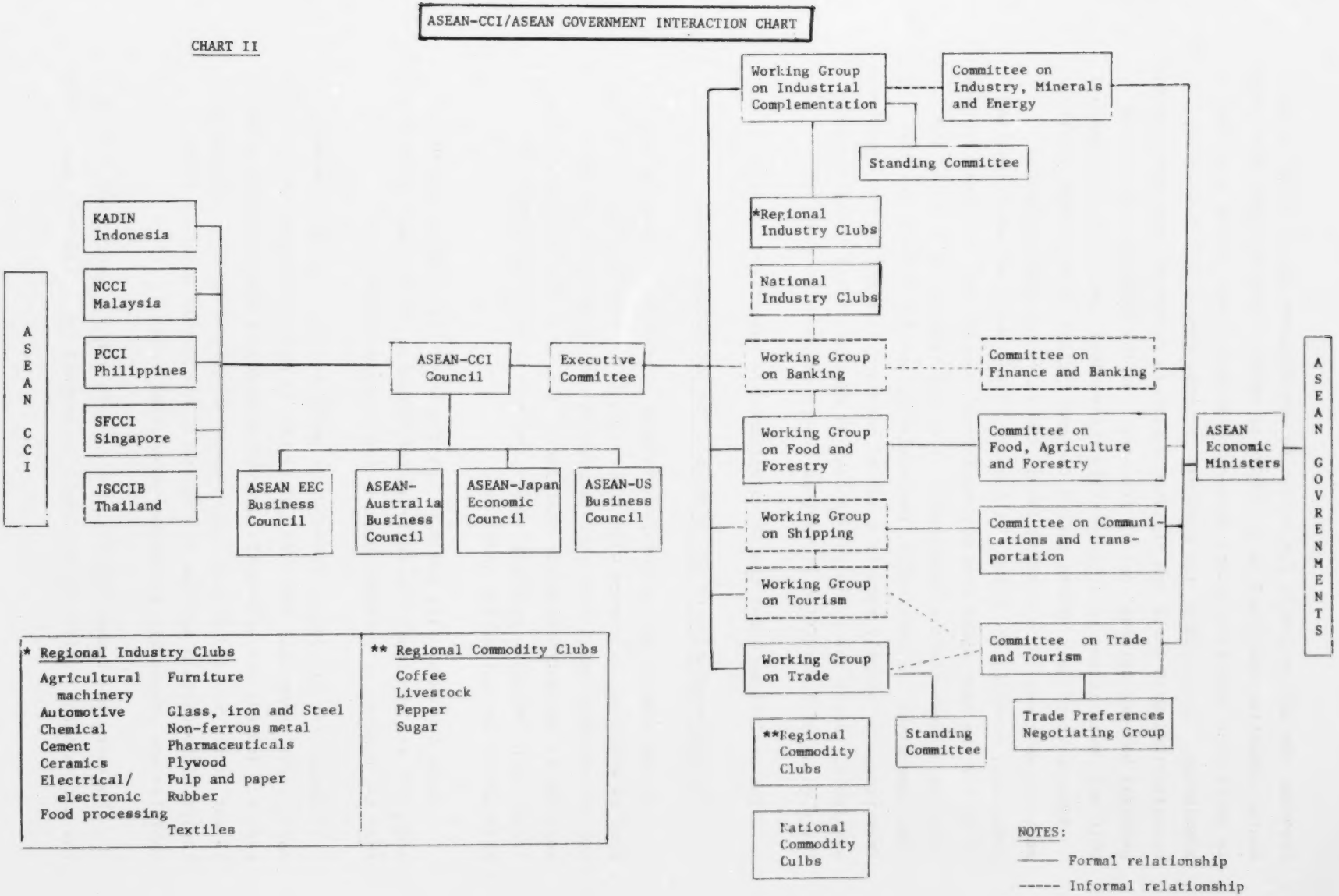
complementation activities. The accreditation of the AIC package is performed by the COIME, while requests for trade preferences for the products in the complementation package are evaluated by the Trade Preferences Negotiating Group of the COTT. The final decision is taken by the ASEAN Economic Ministers, who meet from time to time to given general direction to the complementation operations and assess their progress.

The key component of the institutional structure for AIC is, of course, the private sector, which is given the initiative to identify and formulate the AIC package. The ASEAN Chambers of Commerce and Industry (ASEAN-CCI) is to act as the official spokesman for the private sector and therefore officially becomes the recognized channel of communication between the government and the private sector in the ASEAN countries. In all the ASEAN countries there is a well-established Chamber of Commerce of Industry, which represents the interest of the powerful business and industrial establishment. Members of the CCI in the individual ASEAN countries have often close links with the technocrats in the government.

Chart II depicts the intricate linkages between the ASEAN-CCI and the ASEAN governments in the area of regional economic co-operation. One notable feasture is that for each of the five ASEAN governmental economic committees, there is a counterpart in the form of a working group within the ASEAN-CCI structure. In the field of industrial co-operation, for instance, there is an ASEAN-CCI Standing Committee on Industrial Complementation, in addition to the Working Group on Industrial Complementation (WGIC). The WGIC co-ordinates the work of various Regional Industry Clubs (RICs). RICs are essentially the aggregates of private sector entities, associations, federations or groups within the same industry representing each of the identified industries for possible regional industrial complementation. They are composed of representatives of the national industry clubs but have been officially accreditated by the ASEAN-CCI. Some industries are by nature so extensive, e.g. chemicals, that their RICs have found it necessary to divide into several sub-groups within their Club, in order to focus effectively on some specific branches of the indu-try, such as paints, sulphuric acid, soaps, detergents, fertilizers and so on.

Proposals for industrial complementation initiated by the national industry associations are first submitted to the RIC for consideration. The RIC will then forward the proposal to the WGIC for the endorsement of the ASEAN-CCI Council. The Secretary-General of the ASEAN-CCI will finally

CHART II


ASEAN-CCI/ASEAN GOVERNMENT INTERACTION CHART
ASEAN CCI
KADIN Indonesia
NCCI Malaysia
PCCI Philippines
SFCCI Singapore
JSCCIB Thailand
ASEAN-CCI Council
Executive Committee
ASEAN EEC Business Council
ASEAN-Australia Business Council
ASEAN-Japan Economic Council
ASEAN-US Business Council
Working Group on Industrial Complementation
Committee on Industry, Minerals and Energy
Standing Committee
*Regional Industry Clubs
National Industry Clubs
Working Group on Banking
Committee on Finance and Banking
Working Group on Food and Forestry
Committee on Food, Agriculture and Forestry
Working Group on Shipping
Committee on Communications and transportation
Working Group on Tourism
Committee on Trade and Tourism
Working Group on Trade
Trade Preferences Negotiating Group
**Regional Commodity Clubs
Standing Committee
National Commodity Culbs
ASEAN Economic Ministers
ASEAN GOVERNMENTS
* Regional Industry Clubs
Agricultural machinery
Automotive
Chemical
Cement
Ceramics
Electrical/ electronic
Food processing
Furniture
Glass, iron and Steel
Non-ferrous metal
Pharmaceuticals
Plywood
Pulp and paper
Rubber
Textiles
** Regional Commodity Clubs
Coffee
Livestock
Pepper
Sugar
NOTES:
Formal relationship
Informal relationship
Convened
Not yet convened

transmit the AIC proposals for action to the Chairman of the ASEAN governmental committee concerned (e.g., COIME or COTT). Care is taken that there is sufficient consultation and discussion at each level before the final submission. In practice, the national industry groups will hold prior consultations with their own Ministry officials to ensure that the intended proposal has met national policy priority. At the ASEAN-CCI level, the WGIC will work intensively to identify the various issues and problems and to iron out conflicts before making recommendations to the ASEAN governmental committee. At the ASEAN level, the relevant ASEAN technical committee, normally the COIME, will evaluate the proposal before putting it up for the next ASEAN Economic Ministers' meeting for the final approval. Thus the process for the development of an AIC package can be long and time consuming. In particular, proposals for the AIC package for the "new products" usually require a lot of data and information not readily available. Hence the prolonged process of discussion and consultation. The process of interaction of various groups is shown in Chart III.

The activities under the AIC programme are summarized in Table 3.

The implementation of AIC packages: The automotive industry

So far some 30 AIC proposals have been considered by various RICs, most of which are concerned with "new products". However, there are only two AIC packages which have gone through the whole exercise and been approved by the ASEAN Economic Ministers. The first AIC package is concerned with "existing products" while the second with "new products". Both are in the automotive industry.

Since the automotive industry has displayed the greatest potential among all the proposals for regional co-operation and has made more progress than the others, it warrants some special consideration here.

Except for Singapore, assembly of motor-cycles, private passenger cars, light commercial vehicles and trucks is much encouraged in the ASEAN region. Indeed, the automobile assembling industry was initially promoted as one of the key industries under import-substitution, with substantial tariff differentials applied to imports of completely built-up (CBU) vehicles and components in knocked-down (CKD) form.

However, the demand for vehicles in each ASEAN country, and even in the entire ASEAN region, is too small to support the integrated manufacture

CHART III

NIC, RIC, ASEAN-CCI AND THE ASEAN GOVERNMENTS INTERACTIONS

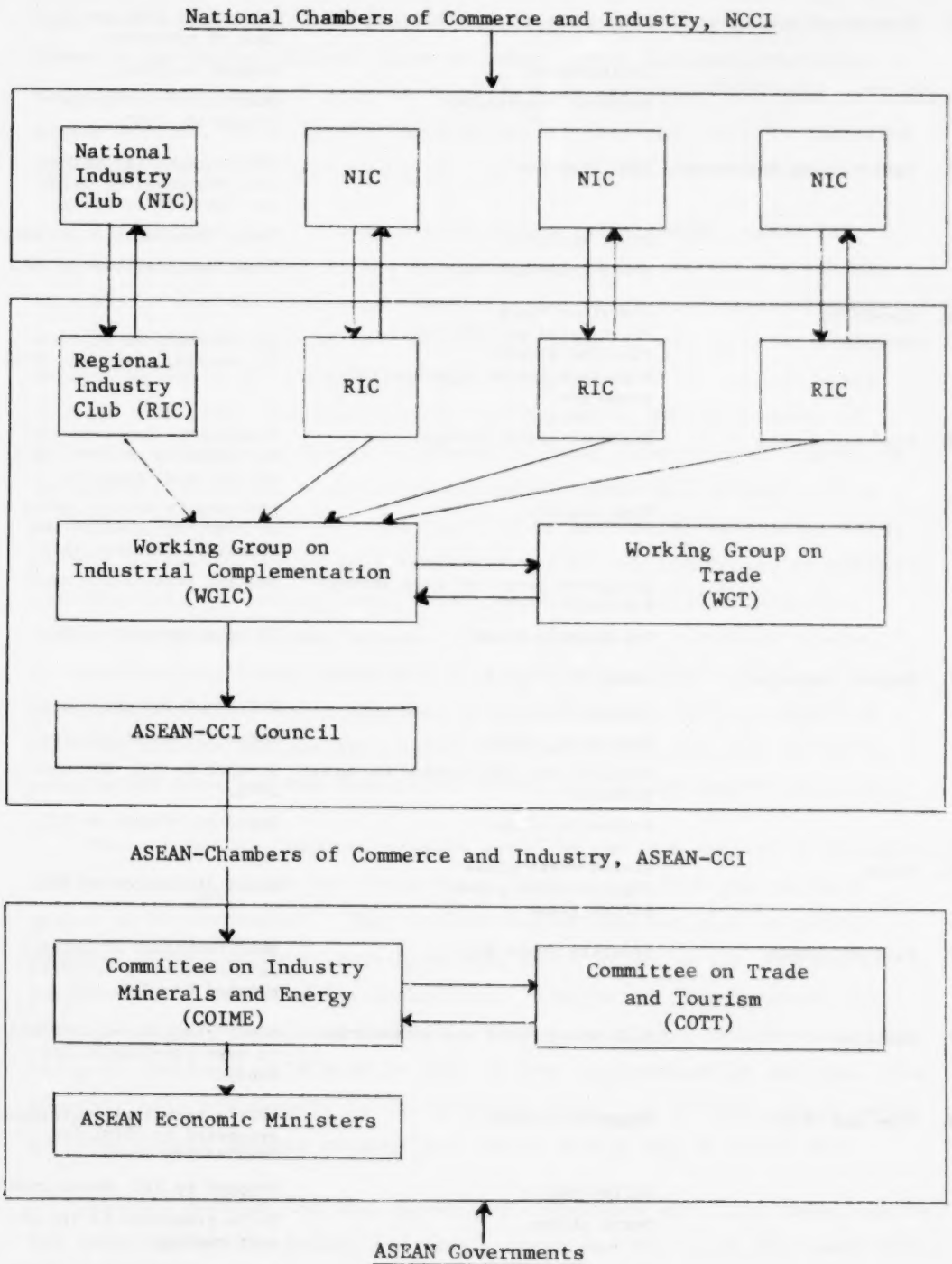


Table 3. Industrial Compelementation Projects considered by Regional Industry Clubs

Industry	AIC projects considered	Status of project
1. Automotive	First AIC package, (existing products)	Approved by ASEAN.
	Second AIC package, (new products) (Total of 10 projects)	Economic Ministers.
2. Electrical/electronics	TV picture tubes, black and white	Dropped in 1978 due to lack of consensus.
	Transformers	Dropped in 1981.
	Hermetic compressors	Feasibility study discontinued, 1981.
3. Agricultural machinery	Mini tractors	UNDP's technical assistance requested by COIME for feasibility study.
	Power sprayers	Under consideration by RIC.
	Power transmissions	Under consideration by RIC.
4. Chemicals	Acetylene black Chlorinated paraffin was Titanium dioxide High test sodium hypochlorite Freon gas	For discussions at next. RIC meeting, December 1981.
5. Food processing	Regional grain storage	Disapproved December 1981 by Committee on Food, Agriculture and Forestry.
	Fish cannery	Endorsed to working group on Food, Agriculture and Forestry, December 1980.
	Slaughter house and cold storage for beef	Seeking feasibility study.
	Dry baker's yeast	To be proposed for PTA.
6. Rubber products	Heavy duty tyres	
	Carbon black	RIC concluded not viable.
	Tyre cord, nylon	Under RIC consideration.
	Chemical for fabrication of rubber products	Dropped by RIC, November 1978.
	Synthetic rubber	Found not viable by RIC.
7. Glass	Tinted sheet glass Figured sheet glass Saftey glass	Under discussion by RIC.
8. Pulp and paper	Security paper mill	UNDP technical assistance for feasibility sutyd requested by COIME
9. Textiles	Mill spare parts and accessories	Study group to be convened to make pre-feasibility study.
10. Iron and steel	Magnesia clinker	UNDP's technical assistance requested by COIME for feasibility study.
	Billet mill	Dropped by RIC, March 1980.
	Ferro alloys	To be presented to RIC at next meeting.
	Graphite electrodes	Prefeasibility study to be prepared.

of vehicles on internationally competitive scale. The automotive market in each ASEAN country is further affected by the proliferation of different makes and different models. The total sales of private passenger cars in ASEAN in 1979 amounted to only 190,000 units. Even if these sales were all of one make or one model, the region's aggregate demand would not support a fully integrated automobile industry competitive with those in the United States, Japan or other larger European countries. With fast technological progress towards fuel efficiency and less pollutive engine designs, an integrated manufacture of passenger cars by countries with week industrial base could well be a high risk undertaking.

At the same time, a vast market exists in the ASEAN region for components manufactured in the region either to be used in new vehicle assembly or for the replacement market. The scope for component manufacture in ASEAN could be even more significant if the national component industries could be rationalized and re-organized on a regional basis through industrial complementation. Furthermore, the development of different automotive component industries could exert a major impact on the industrialization progress of the ASEAN countries, because of its potential linkage effects. The hundreds of automotive components which go into an automotive vehicle require a variety of industrial processes and materials, including iron, steel, non-ferrous metals, plastics, rubber and glass, to manufacture. The standards of precision needed in manufacturing these components to the tolerance requirement and interchangeability will foster the development of manufacturing techniques training methods and quality control systems, which will all add up to a substantial boost to the industrial capability of the member countries.

The automotive components which could become the subject of a regional complementation scheme are those which require the enlarged regional market to be economical. They include sub-assemblies such as petrol engines, diesel engines, transmissions, drive axles, drive shafts, suspension parts, and steering mechanisms. Components of sub-assemblies such as engine crankshafts, valves, pistons, bearings, transmission gears and gear forgings could also be part of the complementation package. The possibilities for exports to the original maker, or as replacement parts to other export markets outside the region should not be ruled out.

The AIC package for the automotive components was first developed by the ASEAN Automotive Federation (AAF), which was the first RIC under the

aegis of the ASEAN-CCI. The AAF is made up of five automotive associations in ASEAN. At the first AAF Council meeting in December 1976, it appointed a Technical Committee to study and identify automotive components/parts/ products for regional complementation. Subsequently, the Technical Committee recommended 32 out of 121 items identified as products for possible industrial complementation as follows:

A. Suspension system
   1. Shock absorber complemented by models
   2. Coil spring

B. Power train
   1. Transmission assembly complete
   2. Driving axle including differential carrier assemply, complete
   3. Propeller shaft including "U" joints
   4. Constant velocity joints

C. Electrical system
   1. Horns
   2. Wiper motors
   3. Starter motors
   4. Alternators
   5. Regulators
   6. Gauges
   7. Head light bulbs

D. Engine and parts
   1. Engine assembly by make
   2. Engine parts
      (a) Oil screen
      (b) Oil pressure gauges
      (c) Oil temperature gauge
      (d) Thermostat
      (e) Water temperature gauge
      (f) Timing chain cover
      (g) Cylinder block
      (h) Cylinder head
      (i) Crankshaft
      (j) Valves
      (k) Carburetor
      (l) Timing chain

E. Make system and wheels

1. Make hoses, clutch hoses

F. Body parts (to be complemented by models)

1. Floor side panel assembly
2. Side structure
3. Roof panel
4. Frame side rail
5. Cross members

Of the 32 products, it was found out that there is:

- No existing facility in all the five ASEAN countries for three components.
- No existing facilty in four ASEAN countries for seven components.
- No existing facility in three ASEAN countries for six components.
- No existing facility in two ASEAN countries for seven components.

After the AAF Third Council Meeting held in Singapore in November 1978, the initial package for regional complementation was agreed upon by AAF members. This package consists of the following:

Indonesia	- Deutz diesel engines (30 HP - 150 HP)
Malaysia	- Spokes, nipples and drive chain for cars
Philippines	- Body panels for Ford Cortina
Singapore	- Universal joints
Thailand	- Body panels for commercial vehicles of one ton and above

Carburetor and headlight projects were also agreed upon by the AAF.

The proposed initial package as well as the carburetor and headlight projects were approved at the WGIC Standing Committee Meeting held in Feburary 1979 for recommendation to COIME. After a few rounds of meetings and consultation with the expert group on the automotive industry, the COIME eventually adopted the first two AIC packages for final approval by the ASEAN Economic Ministers in Bali in September 1980:

First Package:

Indonesia	- Diesel engines (80-135 HP)
Malaysia	- Spokes, nipples and drive chains for motorcycles and timing chains for motor vehicles.

Philippines - Ford body panels for passenger cars
Singapore - Universal joints
Thailand - Body panels for motor vehicles of 1 ton and above.

Second Package:

Indonesia - Steering systems
Malaysia - Headlights for motor vehicles
Philippines - Heavy duty rear axle for commercial vehicles
Singapore - Fuel injection pumps
Thailand - Carburetors

To facilitate the implementation of the first package, the AAF agreed that the companies involved in manufacturing should take the initiative to work out multilateral or bilateral complementation. Request had to be made to the government bodies for appropriate tariff concessions. At the Fourth ASEAN-CCI meeting held in Jakarta in December 1980, the AAF was authorized to communicate and negotiate with the COIME and the expert group on the automotive industry on all matters relating to complementation in the automotive industry. Meanwhile, negotiations on trade preferences on products covered under the two automotive complementation packages had started at the Eighth Meeting of the Trade Preferences Negotiating Group of the COTT held in January 1981. The requests for tariff concessions from each other are being considered and will no doubt involve further rounds of negotiation. This is because all the ASEAN countries (with perhaps the exception of Singapore) have numerous automotive parts industries operating behind tariff walls.

(iii) ASEAN Industrial Joint Ventures (AIJVs)

Evolution of the AIJV proposal

Because of the problems and obstacles which have impeded the progress and implementation of AIPs, it had been perceived that the AIC programme may be a more effective avenue for ASEAN industrial co-operation in the long run. However, it has proved difficult to identify sufficient packages for industrial complementation similar to the one that has been mounted on the automotive industry, which can involve participation from all the ASEAN countries despite their different industrial structures. As has been discussed in the above section, even the complementation scheme for the ASEAN automotive industry has not been progressing fast enough and by itself

it cannot be counted upon to provide a breakthrough in regional industrial co-operation. Hence other avenues or other more innovative procedures for regional industrial co-operation within the broad framework of the AIC programme have been explored.

It was with the view to step up progress in industrial complementation that the ASEAN-CCI President, Mr. Wee Cho Yaw of Singapore, in his address to the 14th ASEAN-CCI Council Meeting held in Jakarta in December 1980, proposed a new concept of industrial complementation called "ASEAN Industrial Joint Ventures". One distinguishing feature between the AIJV and a conventional AIC project is that the former can proceed even with two or three ASEAN partners from the private sector while the latter is normally presented as a package involving more or less equal participation from all the member countries. Conceivably AIJVs can be launched as relatively small projects with less capital investment and less preparatory groundwork. In project development or formulation, the more flexible AIJVs can reduce the problem of mismatching or lack of matching among the member countries, which has posed great difficulties for the identification of an acceptable AIC package. It is envisaged that AIJVs can be approved individually or separately by the relevant ASEAN Economic Ministers so long as these projects can yield benefits to the member countries concerned and do not bring about unacceptable distribution of benefits and costs among the promoting member countries, thus avoiding going through the whole cumbersome ASEAN machinery.

At the ASEAN-CCI meetings in Manila in June 1981 and in Bangkok in November 1981, the AIJV proposal was formally considered. Meanwhile, the various ASEAN RICs, notably, the ASEAN Chemical Industries Club, the ASEAN Iron and Steel Industry Federation, the ASEAN Automotive Federation, and the ASEAN Federation of Textile Industries, were undertaking studies to identify potential joint ventures. It is understood that AIJV projects will soon be submitted to the COIME for approval. The COIME has already drafted the Basic Agreement on ASEAN Industrial Joint Ventures in conjunction with the ASEAN-CCI.

The key guiding principles in the draft Basic Agreement include: (1) Participation in an AIJV comprises at least two ASEAN countries but is not necessarily limited to only ASEAN countries, provided that the ASEAN national component is at least 51 per cent. (2) An approved AIJV product

will enjoy up to 50 per cent of ASEAN PTA. (3) Other ASEAN countries can choose to opt out from the AIJV but their similar products cannot enjoy such special tariff preferences. (4) Participating countries may consider not to encourage new or additional capacity for approved AIJV products during a certain predetermined short period. (5) Whenever feasible, AIJV products are to be equitably allocated to the participating ASEAN countries. (6) An AIJV product should be of internationally accepted quality and its price relatively competitive.

It can thus be seen that the AIJVs carry certain distinct advantages not embodied in the conventional AIC package. Since the AIJVs have such flexibility of participation as allowing each member country freedom to join or not to join, a wide range of industrial projects can be more easily initiated or identified for the purpose of regional co-operation. Further, the provision for non-ASEAN participation in the regional project opens up opportunity for the multinational corporations to come in. It is well known that foreign enterprises have played a crucial role in the region's industrial development. With their superior technical know-how, management skills, overseas marketing connections and outside capital funds, MNCs are likely to add greater economic viability to the projects. The emphasis on international competitiveness is also a right move. If an AIJV project is economically efficient and becomes less dependent on PTA, it will also become less susceptible to the vagaries of regional political influence.

Potential AIJVs

At the 13th Meeting of the COIME in Kuala Lumpur in January 1981, a decision was taken to recommend pre-feasibility studies on a magnesium clinker plant, a mini-tractor plant and a security paper mill as potential AIJV projects.

Magnesium clinker is needed for basic refractory used for making heat-resistent bricks for the furnaces of the iron and steel industry and the cement industry. Among the raw materials for magnesium clinker, dolomite is the most important and is available in ASEAN, especially Thailand. The demand for magnesium clinker (which is a derived demand) therefore depends on the growth of two vital industries in ASEAN, namely, steel and cement. The investment cost of the magnesium clinker project depends much upon the scale of production, location, labour costs, etc. A preliminary estimate of the total investment for a workable size amounts to US $40 million.

The mini-tractor project was proposed by the ASEAN Agricultural Machinery Federation. In Thailand and Indonesia, small tractors are increasingly used

for rice cultivation, and their demand is expected to continue to grow rapidly to meet the requirement of farm mechanization. In these two countries there are already a number of small tractor assembly plants. Indonesia has planned to set up a large-scale national project for the production of agricultural tractors. The conceived AIJV project for mini-tractors is to be concentrated on the units with 15-25 HP. The projected annual output is 10,000 units. However, the possibility of over-production should not be ruled out, since the individual ASEAN countries (except Singapore) have already their own tractor factories.

The ASEAN security paper mill project, as proposed, will manufacture security paper used for bank notes, cheques, certificates of indebtedness, stock certificates, revenue and postages, contracts, legal documents, lottery tickets, and other forms of financial instruments. This project was initiated by the private sector in the Philippines in view of the availability of the principal raw material, i.e., abaca, a long-fibre plant. It is, however, difficult to ascertain the exact ASEAN demand for security paper, which is just a sort of high quality paper. Some ASEAN countries traditionally have their own legal tender notes printed in the United Kingdom, while others in the United States.

The foregoing AIJV projects have been more seriously considered, and pre-feasibility studies are carried out with support of UNDP/UNIDO. Besides, other projects have been proposed and identified, which include graphite electrode, ferro-alloy, chlorinated parafin wax, acetylene black, titanium dioxide and freon. Most of these projects are still under deliberation in their respective RICs. Some of these projects may, however, clearly not be feasible or likely to be accepted by the relevant ASEAN authorities. The process of getting an AIJV project off the ground might be faster if the ASEAN-CCI was to draw up a sort of pre-screening list of feasible projects that are likely to be approved by the ASEAN countries.

ASEAN co-operation in industrial finance

The limited progress of ASEAN industrial co-operation through various schemes as surveyed above is in part due to the many structural problems inherent in these schemes and in part because of the overall institutional constraint associated with a particular ASEAN organization or a particular member country. An interesting point arises: how far has the sluggish progress of these projects been due to lack of financial support? In what

way can regional financial co-operation contribute to ASEAN industrial co-operation? Are financial considerations crucial to the success of a regional industrial project?

Financing industrial development in ASEAN

Industrialization progress in developing countries is highly dependent upon the availability of financial resources. For ASEAN as a whole, on account of the constant inflow of foreign investment, availability of international aid as well as rising export earnings from the region's primary commodities and natural resource products, its industrialization programme has not been constrained by shortage of capital and foreign exchange. In addition, domestic financial resources in each of the ASEAN countries have been adequately mobilized for development, mainly because all the ASEAN countries are well endowed (at least by the average standard of the Third World) with financial institutions. Consequently, few industrial projects, public or private, are known to have been aborted due to lack of financing.

Indonesia is adequately served by financial institutions. The Bank Negara Indonesia is the largest state-owned commercial bank specializing in financing industrial undertakings. The Bank Pembangunan Indonesia extends medium- and long-term loans to new industrial projects particularly in the transportation sector, while the Credit Insurance Institution extends credit guarantee cover to banks for financing small- and medium-sized industries.

In Malaysia, financial services are generally adequate for the purpose of industrial development, but they are largely geared towards assisting the bumiputras (native Malays) and small-scale industries. Apart from the Bank Negara Malaysia, the Central Bank, the financial institutions with a major role in industrial financing include the Credit Guarantee Corporation which offers guarantee cover for small enterprises; the Malaysian Industrial Development Finance (MIDF), which promotes bumiputra participation in industrial activities; and the Industrial Development Bank of Malaysia, mainly for financing capital-intensive and high-technology industries.

In recent years the financial system in the Philippines has grown extensively and in greater sophistication. At the end of 1979, there were 38 private development banks specializing in providing medium- and long-term loans for economic development purposes. Lending to the small-

and medium-sized pioneering industries is mainly done by the wholly state-owned Development Bank of the Philippines.

As a financial centre in Southeast Asia, Singapore is well served by a whole range of financial institutions, both foreign and domestic. With a high saving ratio and with no balance-of-payments problem, Singapore's industrial expansion is easily met by domestic financial resources, usually channelled through the large semi-government Development Bank of Singapore.

In Thailand, the industrial sector is currently in need of financial help for restructuring in order to make it more export-oriented and to expand into areas outside the greater Bangkok region. The Bank of Thailand (the Central Bank) has been providing funds at subsidized rates to industries through the Industrial Finance Corporation of Thailand. Small industries can resort to the Small Industry Finance Office, which is run by the Ministry of Industry. In practice, many industrial undertakings in Thailand have been funded largely through self-finance by borrowing from commercial banks.

It may be concluded that the ASEAN countries have developed a variety of financial institutions, which have by and large effectively mobilized domestic resources for industrial development. This does not mean that there is no demand for external financing. Small industries, particularly those from the priority sectors, e.g. in the rural areas, can turn to government or semi-government financial corporations. But the need for outside financial resources arises in the case of the large, capital-intensive projects, especially from the financial sources in the advanced countries which can offer attractive or concessional terms.

Financing of ASEAN industrial co-operation projects

As discussed earlier, in the first AIP package, two of the five originally designed projects have been withdrawn, with only the urea projects for Indonesia and Malaysia proceeding as planned while the soda ash project for Thailand is still under consideration. Of all the obstacles faced by the AIPs, the financial aspects have posed the least problem. As shown in Table 4 the financial requirements of the above mentioned three projects of the first AIP package have been adequately met by long-term borrowings at concessional rates from Japan.

Table 4. Terms of loans for three AIPs

	Indonesia	Malaysia	Thailand
Project	Urea	Urea	Soda ash
Site	Aceh, Sumatra	Bintulu, Sarawak	Rayong Province
Start of construction	March 1981		1982
Total investment	US $403 million	US $322.640 million	US $280.8 million[b/]
(i) OECF loan			
(a) Amount	46.53 billion Yen	US $158.094 million	
(b) Rate of interest	2.5% per annum	4% per annum	
(c) Loan period (grace period)	18 (7) years	20 (5) years	
(d) Procurement formula	Generally united	Generally united	
(ii) Ex-Im-Credit			
(a) Amount	20.17 billion Yen	US $67.754 million	
(b) Rate of interest	7.5 - 7.7% per annum[a/]	7.75% per annum	
(c) Repayment period	10 years (after commissioning)	10 years (after commissioning)	
(d) Procurement formula	Tied to Japan	Tied to Japan	

Note: a/ The higher interest rate is charged on an additional sum of 5.67 billion Yen.

b/ This amount includes investment in the mining of rock salt and limestone quarrying which may not be included in the AIP.

OECF = Overseas Economic Co-operation Fund of Japan.

There are, however, certain obvious snags on the financial side. Firstly, the initial delay and the subsequent slow down of these projects have escalated the final costs. This necessitates the renegotiation of loans and additional borrowings, which have therefore caused additional delay. Secondly, there are substantial differentials in the interest rates for different projects, because the major creditor, Japan, has insisted on treating each project on a case to case basis. The Japanese also maintain that loans will be advanced to the individual ASEAN countries concerned and will then be relent to the project companies. Thirdly, the Japanese loans are not without strings attached, and the procurement formula to the projects is tied to Japan.

As for the AIC programme, the projects have not actually started and the detailed financial arrangements have yet to be worked out. The main possible external sources of finance are Japan, the EEC countries and USA, with Japan being the most likely source due to Japanese economic pre-eminence in the region.

ASEAN has so far been successful in eliciting financial assistance from Japan for its regional economic co-operation efforts. Through the Fukuda Doctrine, Japan had pledged US $1 billion to help finance the ASEAN regional industrial projects; but the Fukuda Fund could be easily depleted once other AIPs were confirmed. In order to maintain a continuous flow of funds from Japan to finance other ASEAN endeavours, a new Japanese merchant bank called the "Japan Investment Company" (JIC) was set up in 1980. The JIC is supposed to provide financial resources to the ASEAN projects through the other newly established "ASEAN-Japan Development Corporation" (AJDC), of which the JIC is a shareholder. With capitalization amounting to one billion yen, the JIC counts among its shareholders some 150 big Japanese corporations and securities houses. The JIC would solicit government and private financial resources in Japan and other international financial centres to participate in the AJDC equity for its lending activities. The JIC will mobilize long-term funds by issuing capital notes to Japanese corporations or by borrowing from the Japanese government agencies. In this way, the JIC provides a vital avenue for various ASEAN industrial projects (provided they are economically viable) to tap the vast financial resources from the yen market.

ASEAN's efforts for external financial assistance have also met with some success in the EEC. In March 1980, ASEAN and EEC signed an agreement for financial co-operation. Subsequently, a proposal was made for the

formation of the ASEAN-EEC Development Fund, along with a request from ASEAN for the EEC's contribution of US $10 million towards the financing of the pre-feasibility studies of some industrial projects provided under the AIC package. Subsequently, ASEAN had formally requested the EEC for a sum of US $1 billion in the form of concessional credit to finance AIPs. The ASEAN request has raised difficulties in view of the EEC's existing financial and technical aid policy with regard to "non-associated developing countries". The EEC would rather deal with ASEAN through the Interact Group, an informal association of Europe's public development finance corporations. Negotiations between ASEAN's Committee on Finance and Banking and the EEC's Interact Group are being continued.

Apart from the EEC, ASEAN could approach other advanced countries like the United States, Canada, Australia and New Zealand for credit lines. The usual mechanics for negotiation is through ASEAN's "dialogue" with these countries. However, no significant results have so far been produced.

ASEAN financial institutions

The presence of problems in connection with the external sources of finance of the ASEAN's co-operation activities has reinforced the region's decision towards more "financial self reliance". In August 1976, ASEAN bankers met in Singapore and decided to establish the ASEAN Banking Council (ABC) as a mechanism for promoting banking co-operation in the region. A year later the idea for an ASEAN merchant bank was mooted at the ABC meeting, leading to the formation of the ASEAN Finance Corporation (AFC) in Singapore in 1981 with initial paid-up capital of US $50 million, to be equally shared by the five members of the ABC. The shareholders are drawn from all major banks and financial institutions in the five countries.

The idea behind the establishment of the AFC was the creation of an ASEAN-owned financial institution that could provide financing facilities for the regional co-operation projects or other ASEAN-based enterprises. It was noted that the existing financial institutions inside or outside the region were reluctant to finance regional ventures. The United Nations Study Team had recommended for the formation of the ASEAN Development Corporation at the suitable time for the purpose of trade co-operation and economic integration. But ASEAN viewed this as premature.

In practice, the AFC is functioning more like an ASEAN Investment Bank. Its major objective is to serve as a catalyst for the region's economic development by actively participating in or initiating new invest-

ment activities, especially underwriting both debt and equity issues of ASEAN-based industries. Thus seed equity capital may be offered by the AFC to the various AIC projects. The AFC can also serve as a conduit through which international financial resources outside the region is channelled to the region for development. Above all, the formation of AFC fills an important gap in the overall ASEAN machinery for regional co-operation, as being a formal channel for outside funds to be transmitted to various ASEAN projects. Prior to this, the lack of an official ASEAN financial institution as the counterpart to financial organizations outside the region had given rise to cumbersome procedures for the disbursement of funds to various ASEAN agencies or projects.

Japan was most eager to establish links with the AFC, and let AFC hold half of the equity of the ASEAN-Japan Development Corporation (AJDC), which started operation at the end of 1981. The main objective of AJDC is to solicit and channel private and official financial resources from Japan and other international financial centres to the ASEAN region for the promotion of ASEAN co-operation or the ASEAN-Japanese joint ventures.

Meanwhile, the idea of setting up an ASEAN Export-Import Bank along the line of a similar organization in Latin America was also mooted. This would provide concessional export and import credits to promote intra-ASEAN trade. The proposal was formally put to the first COFAB (ASEAN Committee on Finance and Banking) meeting in May 1977. Subsequently, the International Finance Corporation (IFC), an affiliate of the World Bank, was asked to organize a mission to look into the feasibility of setting up an ASEAN Export-Import Bank. However, the IFC's recommendations were against this kind of financial institution on the grounds that the growth of trade in ASEAN, especially for the non-traditional goods, has not been hampered by the lack of medium- and long-term credits, and that the ASEAN exporters have been generally adequately provided with trade credits by their national monetary authorities. In short, the IFC mission did not detect a sense of urgency in the region for the creation of such a regional export credit institution. Thus, the idea of the ASEAN Export-Import Bank is for the time being shelved.

At the ASEAN Banking Council meeting in January 1980, another idea concerning the setting up of the ASEAN Bankers Acceptance (ABA) market was proposed. It was held that the ABA would cut down the cost of intra-ASEAN import financing which is normally done through the New York Bankers Acceptance market. Commercial banks in ASEAN, if allowed to create ABA, could

charge their customers lower discount rates through a secondary market for ABA. The ASEAN Central Banks and Monetary Authorities have already approved the ABA scheme in principle. But the high interest rates in the international money market throughout 1982 had stalled progress of the ABA scheme.

Special mention must be made in respect of the ASEAN Swap Arrangement, which came into being in August 1977. This is a mechanism for short-run liquidity financing arranged by the Central Banks and Monetary Authorities in the region to alleviate temporary balance of payments needs of the member countries. It is done with the Central Bank of the needy member country swapping its local currency for US dollars provided by other member countries. The original amount of credit available under this facility was US $100 million, with each member country contributing US $20 million. In 1978, the credit line available under this scheme was raised to US $200 million. In 1979, the Swap Arrangement was extended for another three years.

Earlier in 1976, a proposal to organize an ASEAN Clearing Arrangement was put forward, as similar clearing arrangements have been adopted in other regional groupings. The scheme would save foreign exchange conversion costs in the ASEAN region and could lead to more intra-regional trade. But the scheme was later frozen as its potential benefits for ASEAN were considered not sufficiently significant.

In conclusion, it may be recaptured that the ASEAN region is reasonably endowed with fairly well developed and a diverse range of financial institutions, which have so far provided a creditable foundation not only for the region's industrialization progress but also for its recent industrial co-operation efforts. Unlike the regional groupings in other parts of the Third World, the extensive financial network in ASEAN has offered adequate financial services for regional co-operation activities in trade and industry. Some programmes in ASEAN industrial co-operation have run into problems because of their structural and institutional difficulties, but not due to the lack of financial facilities. In short, regional financial co-operation in ASEAN has advanced quite significantly over the past few years, and further progress in this field could in the long run still produce more positive effect on regional co-operation in the field of industry.

(v) Other areas of industrial co-operation

The main thrust of ASEAN economic co-operation, as identified and discussed above, are contained in the programmes covered by PTA, AIP, AIC, AIJV and AFC. These activities may be treated as "formal" regional economic co-operation in the major sectors. But regional economic co-operation is a broad term and can take a variety of forms. There are other aspects or areas where more "informal" and less visible regional co-operation activities can take place. This refers to occasions or frameworks which provide opportunities for various groups from the member countries to make contact with each other and exchange views on matters of regional interests. The numerous rounds of meetings for negotiation, consultation and discussion generated from such formal regional co-operation programme as AIP or AIC have also enabled the relevant groups in each member country to come to understand more the problems and needs of their couterparts in other member countries. The various formal programmes may not have yet yielded concrete results, but their prolonged implementation process has certainly created some beneficial spillovers in terms of increasing public awareness or even public acceptance of these programmes. Eventually there will be positive feedback to the governments or decision makers, which will be under more pressure to modify policies or restructure programmes for some genuine co-operation. This may be a long way from the regionally co-ordinated industrial planning; but it is nevertheless a right step towards harmonization of policies.

Take the AIC programme, for instance. The development of an indsutrial complementation involves an extensive process of interaction at various levels, from the private sector as the initiator at the bottom all the way up to the ASEAN governments for the final decision, as sketched out in Chart III. This may indeed be a cumbersome procedure for mounting a complementation project and has actually been one of the causes for having slowed down the progress of implementation. Viewed from a different angle, the framework for achieving AIC also serves as an effective channel of communication among various parties and interest groups involved in the AIC programme, and information exchange is a precondition for regional co-operation efforts. Besides, this also leads to more technological co-operation.

The procedures and processes for generating the AIC package are a convenient network for the exchange of technical information. The various feasibility studies and technical surveys and their evaluation can also

achieve the same. More concretely, regional technological co-operation is conducted through some specific arrangements, often initiated by the various RICs. For instance, the ASEAN Federation of Cement Manufacturers has organized several technical symposia, with resource persons from both ASEAN and outside, on themes including energy management and planned cement plant management. The ASEAN Federation of Textile Manufacturers has also organized training courses for ASEAN nationals on textile production techniques such as fiber testing. Some RICs have arranged technical visits which can facilitate the regional transfer of technology along practical lines.

Besides, various regional professional groups such as medical personnel, bankers, economists, engineers, shippers and managers hold regular meetings or seminars and conferences on technical topics related to their own professions but often with a regional bias. All these activities contribute to the increased regional technological co-operation. Since most of the technical knowledge transacted on these forums has a special regional bearing, such activities may possibly lead to the development of some regionally-oriented appropriate technology which will in the long run serve the goal of regional industrial co-operation.

The ASEAN framework not just facilitates regional technological co-operation but also promotes external technological co-operation and technology transfer from outside. Over the years, various international organizations such as UNDP, UNIDO and EEC, and the individual governments of Japan and Australia have been approached for financial and technical help towards regional co-operation activities. Indeed, many of the feasibility studies or background technical surveys for regional economic co-operation projects were financed by funds from outside or conducted with technical advice provided from outside.

Much of ASEAN's regional economic co-operation still depends crucially on the breakthrough in the main programmes such as PTA, AIP or AIC. But the gradual progress in the less notable areas as highlighted in this section should not be dismissed. In the long run, these "informal" activities can all add up to something of more than symbolic significance. They increase the general robustness of the overall regional co-operation system, laying groundwork or creating momentum for progress in the "formal" areas.

Chapter III

THE ANDEAN PACT INDUSTRIAL CO-OPERATION

(a) Introduction

Following an intensive process of negotiations during 1968 and early 1969 which came to a close in the Colombian city of Cartagena, the Andean Pact came into being after the plenipotentiary representatives of Bolivia, Chile, Colombia, Ecuador and Peru signed on 26 May 1969 the Subregional Integration Agreement (= the Cartagena Agreement) in Bogota. In December 1973 Venezuela joined the Andean Pact as a sixth member; but Chile opted out in 1976. The mode of the specified in the Cartagena Agreement, which called for the acceleration of economic integration within the framework of the Latin American Free Trade Association (LAFTA). The Andean Pact was thus an outgrowth of the overall regional economic co-operation efforts in Latin America centred in LAFTA. In reality, the Andean Pact was formed largely as a result of dissatisfaction with the working of LAFTA, which by the late 1960s had lost most of its momentum.

From the outset, the Andean Pact, with several distinctive features, had promised to inject some much-needed fresh vigour into the stagnating regional movement in Latin America. The Andean Pact was characterized by a few imaginative or innovative economic integration programmes such as the automatic process of elimination of intra-regional trade barriers, the formation of a common external tariff, the provision for special treatment of foreign investment as well as the sectoral programmes for industrial development, which all stood out as bold experiments in regional economic integration efforts in the Third World. These programmes of integration activities were by far more vigorous than those later proposed in ASEAN or other Third World regional groupings. Hence the Andean Pact has been described as a model of economic integration for developing countries.[1/] Without doubt, the Andean Pact experience in economic integration is instructive for ASEAN and other Third World regional groupings.

1/ R. Frenc-Davis, "The Andean Pact: A Model of Economic Integration for Developing Countries", World Development, No.5, 1977.

(b) The evolution of the integration framework

The idea of regionalism in Latin America was conceived long ago. Strong sentiments for greater inter-American co-operation had often been expressed in the various meetings of the International Conference of American States. But serious ideas of economic co-operation only emerged during and after the war. In 1948, Colombia, Ecuador, Panama, and Venezuela attempted in vain to form a free trade area. Argentina had also tried to initiate some regional arrangements among the southern countries of Latin America. But nothing substantial had emerged. Less ambitious schemes such as regional payments systems were also tried out.

During the 1950s, two significant and practical measures towards regional economic co-operation were undertaken under the auspicies of the United Nations Economic Commission for Latin America (ECLA). The first was the setting up of a Central American Economic Co-operation Committee in 1951 to study the problems of setting up an economic union. This led to the establishment of a Central American Common Market (CACM) and the General Treaty on Central American Economic Inegration, signed in December 1960, by El Salvador, Guatemala, Honduras, and Nicaragua, and by Costa Rica in 1962. The second was the sponsoring of various official conferences and working groups on the promotion of regional trade and customs unification. This culminated in the formation of the Latin American Free Trade Association in February 1960, constituted by Argentina, Brazil, Chile, Mexico, Peru and Uruguay. LAFTA was later joined by Bolivia, Paraguay, Colombia, Ecuador and Venezuela.

As in other country groupings of the Third World, the LAFTA countries differed substantially in economic and social development, and were without significant traditional commerical ties among them, as they were geographically isolated, with their economies primarily oriented towards the advanced countries. Internally, these Latin American countries faced population explosion and chronic external economic imbalances caused by their deteriorating terms of trade. Their industries were inefficient, partly due to over-protection as a result of prolonged import-substitution strategies and partly because of the smallness of their domestic markets. All these structural weaknesses offered a powerful rationale for regional economic integration. It was argued that integration could enable these countries to accelerate specialization and complementary production as well as reduce their economic over-dependency on the few developed nations. Politically, integration

could also strengthen the bargaining power of Latin American countries in the world economic arena.

The Montevideo Treaty for LAFTA embodied the determination of the original signatories "to persevers in their efforts to establish, gradually and progressively, a Latin American common market". Its Article 2 provided that the free trade area was to be brought into full operation within "not more than twelve (12) years" from the date of the Treaty. During that time, the member countries were expected to eliminate gradually "such duties, charges and restrictions as may be applied to imports of goods originating in the territory of any contracting party". To achieve this aim, the contracting parties agreed to enter into negotiations from time to time to draw up national schedules of products, the duties on which were to be reduced at not less than 8 per cent a year, and also a common schedule of products for progressive tariff reduction.

Trade liberalization brought about some notable achievements. Between 1961-69, intra-regional trade of the LAFTA countries had more than doubled in volume and had expanded more rapidly than their global trade. A total of 11,000 national list tariff concessions and 9 complementation agreements had been negotiated. By 1967 regional tariffs had been reduced to about 50 per cent of the level applicable to non-regional exports. Progress had also been made in other fields, e.g. in 1969, the Central Banks of LAFTA created multilateral credit arrangements to help member countries to cope with dollar shortage.

Despite the achievements, however, LAFTA soon started to create problems for itself, and ramifications generated by these problems operated to slow down the integration progress. Although the major efforts of the LAFTA integration were concentrated on removing tariffs in the initial periods, by 1966 tariff concessions had been made on less than half of the tariff items and most of these items were not produced by the country making the concessions. Increasingly LAFTA negotiators began to find it difficult to reach agreements on tariff concessions on products within the common schedules. The fact that the Treaty of Montevideo allowed a high degree of selectivity in the negotiation process so that member countries could also negotiate withdrawal of products in the national schedules made matters much worse. While concessions made on products included in the common schedule could not be modified, no country was obliged to reduce any duty or charges on these products until the end of the 12-year period. Consequently, the trade liberalization process was soon slowed down.

Besides trade liberalization, other problems had cropped up to impede the integration progress. LAFTA kept on putting off agreement in respect of a common investment policy. Above all, some member countries were deeply concerned that protection enjoyed by their domestic industries could be prejudiced by the development of a broader market envisaged by the free-trade area. Such sentiments were manifested in the regional automobile project.

It thus became clear that after the euphoric start in the early 1960s, the integration process of LAFTA was losing momentum and was not proceeding as smoothly and as rapidly as it was required. It was essentially their disappointment with the slow progress of integration within LAFTA that led Bolivia, Colombia, Chile, Ecuador and Peru to form the Andean Pact as a sub-regional approach to integration. These countries constituted a narrower range of variation in size and level of development and thus held brighter promise for successful integration from the start.

(c) Objectives and framework of the Andean Pact

The main objectives of the Andean Pact as provided in the 1969 Cartagena Agreement are the promotion of balanced and harmonious development of the member countries and the acceleration of development through regional economic integration. Furthermore, the Andean Pact also aims at establishing a favourable precondition for the formation of a Latin American Common Market. The ultimate objective of the Andean Pact is to promote faster economic growth via integration so as to improve the living standards of all the inhabitants of the sub-region.

What distinguished the Andean Pact from ASEAN or other regional groupings in the Third World was that the Andean Pact's economic integration objectives were more explicitly spelled out. In fact, the Andean Pact was going after the much more ambitious integration targets, which were aimed at the formation of some kind of an economic union. This means that the Andean Pact would not limit itself to just promoting regional trade through the establishment of a Free Trade Zone as advocated by the LAFTA. A Free Trade Zone is designed to remove all restrictions to reciporcal trade but leave individual member countries free to handle their own trade relations with the rest of the world; while a Customs Union is characterized by the elimination of duties and other trade restrictions between member countries and by the setting up of a common external tariff barrier vis-à-

vis outside countries. Even further, the Andean Pact set a higher goal of a more intensive form of integration which would include not just the free flow of goods and factors of production, but also effective harmonization of economic and social policies of the member countries.

In order to achieve its objectives the Cartagena Agreement laid down, inter alia, the following major policies;

(1) Trade liberalization through progressive tariff cut.
(2) Establishment of a common external tariff.
(3) Joint industrial programming and sector industrial development.
(4) Harmonization of economic and social policies.
(5) Implementation of the agricultural development programme.
(6) Arrangements for physical integration; and
(7) Preferential treatment for the less developed members Bolivia and Ecuador.

Through these policies, the Andean Pact seeks to achieve an equitable and balanced economic development for member countries by exploiting the common opportunities created by integration. At the same time, efforts are to be taken to minimize differences and to avoid conflicts that may crop up between member countries. The institutional framework for implementing the various co-operation programmes is made up of two organs, the Commission and the Board, together with two auxiliary bodies, the Advisory Board and the Economic and Social Advisory Committee (CAES)

(i) The Commission

This is the highest decision-making organ, constituted by the plenipotentiary representatives of all the member countries. It is primarily responsible for formulating the general policy of the Cartagena Agreement, approving the essential guidelines for regional harmonization and other objectives of the Agreement, and ensuring the fulfilment of obligations in accordance with the Agreement and the Treaty of Montevideo.

The Commission is headed by a Chairman nominated by the member countries in rotation, in alphabetical order. The Chairman represents the Commission and cannot simultaneously act on behalf of his own country. The Commission normally holds three regular sessions a year.

(ii) The Board

This is the "technical" organ of the Cartagena Agreement and is made up of three elected officials from member countries for a period of three years. These officials are to act in the common interest of the sub-region as a whole and do not represent any member country. The Board, located in Lima, functions as the Permanent Secretariat of the Agreement, complete with a host of administrative personnel and technical staff. The primary responsibilities of the Board are to ensure that the stipulations of the Agreement are duly implemented and that the Commission's decisions are complied with. The Board also submits proposals regarding the fulfilment of the Agreement to the Commission for approval. From time to time, the Board also conducts studies and initiates measures for consideration by the Commission.

(iii) The Advisory Committee

This Committee is made up of official representatives from the member countries, and its main function is to counsel the Commission and the Board and to co-ordinate their work. This enables member countries to maintain close touch with the work being undertaken by the Board.

(iv) The Economic and Social Advisory Committee (CAFS)

This Committee consists of three representatives each from the labour unions and the management in each of the member countries. Its main function is to bring activities from the economic sectors of each member country into the integration processes of the sub-region. It aims at encouraging participation of the private sector in various regional economic co-operation activities.

Apart from the above four instruments which constitute the major institutional machinery for the economic integration of the Andean Pact, mention must also be made of the Andean Tribunal of Justice, which was formed in May 1979. This Tribunal is the formal legal arm of the Cartagena Agreement, primarily concerned with the enforcement of the sub-regional rules covered by the Agreement. The Tribunal is empowered to interpret or even nullify decisions or resolutions of the Agreement and to investigate any infringement of the Agreement. It is useful to set up such a legal body to settle disputes and conflicts which may arise from time to time in the process of integration.

(d) Industrial development of the Andean Pact

(i) Industrial strategies in the Andean Pact countries

One basic rationale behind the drive of developing countries towards regional economic co-operation is the need to restructure their existing trade and industrialization patterns. For a proper evaluation of the industrial co-operation programmes in the Andean Pact, it is necessary to run a brief review of the industrialization processes and policies of the Pact and to bring out their salient features.

Most of the socio-economic features of the Andean Pact countries have been briefly noted in the introduction of this report. Suffice it to say that the Andean Pact with a total population of 73 million comprises five relatively small countries - the largest country in terms of population size is Colombia, with 27 million. A very high proportion of the population in all these countries is concentrated in cities and towns, and the rates of population growth are generally high. Rapid urbanization over the years has given rise to open urban unemployment, which is a familiar problem in other parts of the developing world. In the Andean Pact countries, as in most developing countries, the need to create employment has provided the main impetus for the sub-region's industrialization efforts.

The strategy of industrialization undertaken in the Andean Pact countries is typical of the import-substitution pattern, with countries manufacturing primarily labour-intensive consumer goods to replace imports. Colombia was the first country to have begun this process in the 1940s and has since developed a relatively complex industrial structure. In contrast, Bolivia and Ecuador were late starters in the industrialization scene, and their manufacturing activities are still predominantly in the stages of simple fabrication involving food processing, beverages, textile and clothing (ISTC 31 and 32) as shown in Table 5. On the other hand, Peru and Venezuela have in recent years made considerable progress in restructuring their import-substitution industries towards the higher stages of import replacement of durable consumer goods.

Needless to say, the extent of industrialization in each of these countries depends on its overall economic characteristics, particularly the predominance of its primary-producing sector. In Colombia, agriculture and cattle-raising still constitute dominant activities, just as mining in Bolivia and Peru, and petroleum in Venezuela as can be seen from Table 6.

Table 5. The Andean Pact: Structure of gross domestic product and market prices for manufacturing industries by country, according to ISTC, 1973

(Millions of US dollars at 1973 exchange rates)

ISTC heading	Bolivia	Colombia	Ecuador	Peru	Venezuela	Andean Pact
Food, beverages and tobacco	35.0	31.2	45.6	30.7	25.5	30.7
Textile, wearing apparel and leather	27.3	23.7	20.3	17.1	9.3	17.9
Wood and wood products, including furniture	5.3	1.7	5.7	2.7	2.2	2.6
Paper and paper products and printing	1.8	5.8	5.4	5.4	5.7	5.5
Chemicals and chemical, petroleum, rubber and plastic products	16.9	18.1	8.7	16.2	36.0	21.5
Non-metallic mineral products	4.5	4.7	7.0	4.1	4.8	4.6
Basic metal industries	3.6	2.9	2.4	8.4	5.7	5.3
Fabricated metal products, machinery and equipment	3.0	10.8	4.5	13.9	10.1	10.9
Other manufacturing industries	2.7	1.1	0.7	1.4	0.6	1.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: JUNAC, "Andean Group, gross domestic product at market prices for manufacturing sector, 1970-1980", J/VE.ES/004; 15 February 1982.

Table 6. The Andean Pact: Gross domestic product of factor cost by sector and country, 1973

(Millions of US dollars at 1973 exchange rates)

Sector	Bolivia	Colombia	Ecuador	Peru	Venezuela	Andean Pact
Agriculture, fishing	20.2	29.4	21.4	14.9	6.5	17.8
Mining	8.1	0.5	0.3	6.5	1.2	2.4
Petroleum	2.2	1.0	7.4	0.6	20.7	7.7
Manufactured goods	14.0	19.5	18.0	22.6	15.4	18.6
Building	4.6	5.4	4.5	3.7	5.4	4.9
Basic services	8.9	7.6	7.7	6.8	11.7	8.8
Government	8.5	7.3	8.8	11.0	11.3	9.6
Other services	33.5	29.3	31.8	33.7	27.8	30.2
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: JUNAC, "Consolidated accounts for the Andean countries", 9 July 1981.

The primary sector in these countries therefore imposes its impact on the character of industrialization of the Andean Pact. The kinds of industries now in existence in these countries are essentially resource-based industries, making use of raw materials and similar inputs from domestic sources, e.g. the food-processing industries in Colombia, metal industries in Peru and Bolivia, petro-chemical industries in Venezuela.

With the availability of raw materials as well as ready-made domestic markets, the import-substituting industries of the Andean Pact have grown rapidly since the late 1960s. All the Andean Pact countries are resource-based economies, thus deriving much benefit from the first world oil price adjustments. With the high oil prices and the commodity boom in the early 1970s, the Andean Pact economies chalked up impressive growth rates during the first part of the 1970s, as shown in Table 7. In the second half of the 1970s, however, economic growth of the Andean Pact slowed down. Slackening of economic growth brought to the fore many structural problems inherent in these economies, especially those in their manufacturing sector. The basic problem for the manufacturing sector was how to improve resource allocation and to increase the efficiency of the industries. A brief survey of the industrialization processes of the indivudual Andean Pact countries is in order.

In Colombia, although the industrial sector was not given the highest priority in the three Four-Year Development Plans in the 1970s, emphasis was put on increasing its production efficiency within the overall framework of liberalizing the economy. It was reasoned that industrialization in Colombia had reached some maturity stage so that attention should be paid to structural adjustment and internal upgrading rather than to further extensive growth.

In Venezuela, a more prominent role was assigned to industry in the development plans than was the case of Colombia. The Venezuela plans recognized that the initial phase of import-substitution was over, but not all industries were ready to mount an export drive. The government was to play a different role from that of the private sector in promoting further industrial growth. The oil bonanza had produced enormous spillovers for a wide rate of consumer goods industries, which led to industrial imbalance. The government was particularly concerned over the lack of internal cohesion of the manufacturing sector. In the latest (1976-80) Plan, emphasis was placed on the long-term need of improving industrial efficiency as well as the

Table 7. The Andean Pact: Gross domestic product at market prices, 1970-80

(Rates of growth in 1973, national currencies)

(percentage)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1970-75	1975-80	1970-80
Bolivia	4.9	5.7	6.8	6.1	5.1	6.8	3.4	3.1	2.0	0.8	5.7	3.2	4.5
Colombia	5.8	7.8	7.1	6.0	3.8	4.6	4.9	8.9	5.1	4.0	6.1	5.5	5.8
Ecuador	4.9	7.2	25.3	6.4	6.4	5.6	5.6	6.2	5.8	4.6	9.6	6.3	7.9
Peru	5.0	1.7	4.3	7.5	4.5	2.0	2.0	-0.5	3.7	3.1	4.6	1.6	3.1
Venezuela	3.0	3.3	6.1	6.1	5.9	8.4	8.4	3.2	0.7	0.7	4.9	3.9	4.4

Source: JUNAC, "Consolidated Accounts for the Andean countries", JN/de 566, 9 June 1981.

setting up of basic industries such as aluminium, iron and steel, and petrochemicals in order to capture the upstream and downstream effects of the booming petroleum sector.

In Peru, the 1971-1975 Plan gave priority to the social reforms based on economic growth. But industry was still considered the focal point of the entire development strategy in order to achieve "self-sustained development". The General Industrial Law classified industries into four groups based on the decending order of priority. Thus, the first group to receive top priority included iron and steel, chemical fertilizers and industries producing capital goods. The second category included goods for mass consumption and main items of industrial equipment. The third was to cover industries established for "complementarity", while the fourth was for the "non-priority industries". The incentives system was structured according to the above priorities.

In Ecuador, the Plan covering 1972 to 1979 also focused on industrial development in order to reduce the country's dependence on oil exports. This was put as one of the country's long-term objectives. The priority list for industrial development included "strategic" industries such as oil refining, iron and steel, fertilizers, fishing and cement. But top priorities were also given to industries which could utilize opportunities created by regional or sub-regional integration.

Finally, in Bolivia, the development strategy in the early 1970s originally stressed social reforms. Later, a new development plan was drawn up, emphasizing specific projects aimed at selective replacement of imports of foodstuffs, textiles, clothing, timber and furniture. This was a more pragmatic approach, although somewhat on an ad hoc basis, lacking overall coherence. But there was also increasing recognition of the need for a more balanced industrial structure geared towards the exploitation of the country's natural resources. Generally speaking, Bolivia's industrial base is still weak, with a lost of features characteristic of the early stages of industrialization. Its industrial capacity is by far lagging behind that of Venezuela and Colombia.

(ii) The role of the state

The role of the state in the Andean Pact's industrial development takes a variety of forms. With few exceptions, the government occupies a secondary position rather than directly operating or controlling the operation of

industries. The role of the government is more important and decisive in the channelling of resources from the primary sector to the industrial sector. By and large, the private sector still assumes the primary role in the growth and development of manufacturing sector in the Andean Pact sub-region.

Colombia has the most market-oriented policy in the group. Its development plans lay down the clear-cut guideline that state intervention in the running of the economy is basically confined to the establishment of rules and the creation of the necessary institutional evironment and incentives for the private sector to operate. The state's direct participation in economic activities is found largely in the mining sector and in basic industries including development of energy and infrastructure, leaving the manufacturing sector primarily in the hands of the private sector.

In Venezuela, the state is heavily involved in intersectoral resource transfer, which essentially means channelling and redistributing surplus from the booming oil industry to other segments of the economy. Since the government coffers rapidly swelled as oil revenue went up, the state had to invest its surplus into basic industries on the official priority list. In Venezuela, as in other small oil rich states, the oil incomes have rapidly led to expansion of the government's stake in the economy and sharply increased the role of government in the functioning of the economy.

In Peru, the scale of government intervention in the economy is the highest in the Andean Pact group. The state not only intervenes in production operations in some industries but also in foreign trade as well as in Peru's financial system. The government is also actively involved in supervising the implementation of the socio-economic reforms at the "micro" level, e.g. in the labour market. At the same time, there is also an official movement towards decentralization, which could well reduce the effect of the state intervention.

In Ecuador, an oil exporting country like Venezuela, albeit on a smaller scale, the government performs much the same role as that of Venezuela, basically by playing an active and supportive role for industries. The government serves an important function in reinvesting income from oil to other basic industries. Thus, apart from the oil sector, state intervention is heavy in industries, such as iron and steel and chemical fertilizers.

In Bolivia, the Plan of 1970 prescribed a very heavy role for the basic industries. However, the Plan of 1975 reduced the role assigned to the state. Nonetheless, the government was still responsible for three quarters of the total industrial investment for the period 1975-80. For the whole decade of 1970s, some 60 per cent of the total investment was attributable to the state. The Bolivian Development Corporation, a main economic arm of the government, has now control of a fairly wide range of corporations covering consumer and intermediate goods. The relatively economic backwardness of Bolivia has provided impetus for more state intervention in the economy.

(iii) Trade-related policies

The Andean Pact countries are small economies and as such, they are also "open", involving a large extent of external operations. Furthermore, industrialization in a small developing country cannot be self-reliant or be completely free from international economic influences. Hence, the policy apparatus which determines the size and levels of foreign economic interaction needs to be discussed. Here in this section, the focus is on exchange policy and tariff policy, which are also interrelated.

On the whole, the exchange policy of the Andean Pact group during the 1970s, a decade characterized by economic uncertainty and international monetary instability, has been passive. This is particularly the case for Venezuela and Ecuador, which exported oil and the huge oil revenue added fire to these inflation-prone economies. Their exchange policy has not been effectively employed for either moderating inflation or stimulating their manufactured exports, although such a "passive" exchange rate policy has operated to favour production for the domestic market.

In Bolivia, an unrestricted exchange market lasted until 1972 when the US dollar went into floating. After a large devaluation in 1973, the Bolivian pesos maintained a fixed rate. In 1979, the Bolivian pesos devaluated again, as a result of high inflationary pressure. Consequently, the fixed rate regime, reinforced by the tariff protection policy, tends to discriminate against industries producing for the export markets. A more or less similar phenomenon holds for Colombia, where the rate of inflation has grossly outstripped the rate of devaluation.

In Ecuador, an official exchange rate was fixed, with the inflationary rates fluctuating. This works in favour of imported goods. The same trends,

in varying degrees, apply to the Peru and Venezuela, as can be seen in Table 8.

The effect of the exchange rate policy on industrial development cannot be evaluated independently of the effect of the tariff protection. In general, the tariff structure of the Andean Pact countries is supposed to operate in such a way as to expedite the import-substitution process. Thus tariff rates are structured and non-tariff barriers set up to protect domestically produced finished goods and to discriminate against the import of consumer goods. Tariffs on intermediate goods and capital goods are either exempted or levied at very low rates. In practice, the final net effect of the tariff protection often turns out to be quite different. In some cases, the goods exempted for the tariff purpose are consumer goods. In other cases, as in Bolivia, the basic tariff structure affords greater protection to consumer goods than to intermediate and capital goods. This is another familiar example of effective protection producing (often unintended) results different from those of nominal protection.

In Venezuela, the average level of protection works out to be 55 per cent, though the actual figure is estimated to be 69 per cent. Import licenses are required for products already produced at home. In Colombia, the tariffs have been reduced progressively, and the average rate comes to 26 per cent after the tariff refomr of 1979. In Peru, the tariffs have remained unchanged for the greater part of the 1970s, with the average rate staying at the high 55 per cent. In addition, Peru has a much stricter system of physical controls than in other Andean Pact countries. Finally, in Ecuador, the tariff structure is quite complex and is differentiated to treat goods according to categories, e.g. luxury goods or capital goods.

On the whole, the tariff system of the Andean Pact countries is administratively cumbersome and economically "irrational". The Cartagena Agreement has indeed provided the much needed framework for the rationalization and streamlining of the tariff policy in the subregion..

(iv) Subregional integration and industrialization

The brief survey above has brought out some structural shortcomings and policy problems in the industrialization process of the Andean Pact countries. Industrialization of these countries has reached the crucial stage of intensifying import-substitution activities into the more advanced sector comprising many basic industries of capital-intensive industries.

Table 8. The Andean Pact: Devaluation and inflation rates by country, 1971-1980

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Bolivia										
i	3.6	6.4	31.6	62.3	8.3	4.5	8.1	10.4	19.7	47.2
d	0.0	11.4	51.1	0.0	0.0	0.0	0.0	0.0	2.9	
Colombia										
i	11.0	13.1	19.6	23.3	22.1	20.5	31.4	18.8	23.9	24.9
d	9.4	9.6	8.2	13.8	15.1	12.1	5.8	6.1	8.3	
Ecuador										
i	9.5	7.7	12.0	22.7	14.4	10.2	12.9	13.1	10.1	12.8
d	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Peru										
i	6.8	7.2	9.5	16.9	23.6	33.5	38.1	57.8	67.7	59.2
d	0.0	0.0	0.0	0.0	5.4	40.8	45.9	86.5	43.6	
Venezuela										
i	3.3	2.8	4.2	8.3	10.3	7.5	7.8	7.1	12.4	23.2
d	0.0	-2.3	-2.2	-0.4	0.0	0.0	0.0	0.0	0.0	

Source: JUNAC, Socio-economic Indicators, 1970-1979, May 1981.

i = percentage variation between average annual price indices.

d = percentage variation between average annual exchange rates.

Some industries are in the process of making the crucial transition from import-substitution into export expansion. For a smooth transformation, many of the structural shortcomings in the manufacturing sector would have to be overcome.

Since all the Andean Pact countries are relatively small economies, the obvious structural constraint of the manufacturing sector of these economies is the limited domestic markets which are easily exhausted in the initial phase of import-substitution. But most dynamic industrial activities with specialization in production, demand a scale of operation to exceed that of domestic markets. The many "basic industries" set up under the various development plans in the 1970s would clearly be not viable if their outputs were to depend entirely on their small national markets. But the world export markets for manufactured products are extremely competitive and tend to be dominated by a few efficient industrial countries together with some dynamic newly industrializing countries (NICs). Worse still, access to the markets of the industrial countries for manufactured exports from the developing countries have become increasingly more difficult due to rising protectionism. In the circumstances, regional economic integration is therefore seen as an attractive and realistic option for these small countries to achieve wider and more stable markets for continuing their industrial growth.

Specifically, the Andean Pact economic integration was supposed to promote the subregion's further industrialization efforts in two ways. The first is to make the import-substitution process more rational and more efficient, by looking beyond the narrow horizon of the individual member country markets; and the second consists in the progressive introduction of competition into the subregion's industrial development process. In this way, the problems created in the industrialization process of the Andean Pact countries have also presented them with opportunities as well as challenges in their movement towards serious economic integration on a subregional basis.

(e) The Andean Pact programmes for trade liberalization

One mechanism of the subregional economic integration of the Andean Pact is the automatic and irrevocable liberalization of reciprocal trade among member countries and the establishment of a common tariff barrier vis-à-vis the rest of the world (the common external tariff). The ultimate

objective is to eliminate duties and restrictions on all kinds of imports originating from member countries. From the outset, the Andean Pact countries were committed to work towards the establishment of a common market.

The range of products covered by the trade liberalization programme are divided into four categories. For tariff reduction, the Andean Pact has created its own nomenclature, NABANDINA, which is based on the Brussels Customs Nomenclature with adaptation to the requirement of the Andean Pact subregion. The four categories are as follows:

(1) The first category comprises products included in the first section of the LAFTA Common List, corresponding to roughly 132 items in NABANDINA. These products were completely liberated from tariff restrictions as of 14 April 1970, except for Bolivia and Ecuador, which were still covered by the Montevideo Treaty. Venezuela, put into effect the tariff liberalization for these products on 1 May 1974.

(2) The second category are products not produced in the Andean Pact subregion but have been reserved for the sectoral programme. This corresponds to 228 commodity items in NABANDINA, and would completely be liberalized by 28 February 1971, except for Venezuela, which would start from 1 May 1974. Special preferences were also given to Bolivia and Ecuador. Another batch of 140 items in this category were to be liberalized on 31 December 1978.

(3) The third category is for products reserved for the sectoral programme of industrial development, i.e., products selected for the establishment of regionally-oriented industries. The list corresponds to 1,100 items in NABANDINA. Most of the products in the list would be liberalized within three years starting from 31 December 1981. Again special considerations were given to Bolivia and Ecuador, which would complete the process of reduction by 31 December 1990.

(4) The fourth category are products subject to automatic tariff reduction. The list covers ablut 3,000 items in NABANDINA. In addition, it also covers the "remainder", or products hitherto not regarded as of basic significance for industrial programming at the subregional level. In reality, the commodities in this category constitute the bulk of the Andean Pact tariff schedule, and they are subjected to a process of automatic intra-regional tariff reduction. Tariffs on these commodities were reduced to a maximum of 100 percent in 1971, by a further 10 per cent per year until 1976, and finally by 6 per cent per year afterwards. Therefore, in 1980 the maximum tariff on commodities in this category were 26 per cent, and tariffs would be completely eliminated by 1983. Once again, Bolivia and Ecuador were entitled to a slower process of tariff reduction.

Two special features in the Andean Pact liberalization programme need to be mentioned. First, as already pointed out earlier, the two relatively backward member countries, Bolivia and Ecuador, were given special considerations whenever possible. Thus certain products from these two countries

are treated with preferential margins so as to facilitate the access of their products to the more competitive subregional markets. Secondly, in order to protect national production activities which are just starting, or which are susceptible to competition from similar products produced under better conditions by other member countries, the Cartagena Agreement allows member countries to exclude certain products from the list of tariff liberalization and from the Common External Tariffs. The list of exceptions for Colombia and Venezuela amounted to 250 items; and for Peru, initially 450 items, but reduced to 350 in 1974 and further down to 250 in December 1982. Special treatment was also rendered to Bolivia and Ecuador. It was agreed that exceptions would be removed in 1980 at the latest.

As a result of implementing trade liberalization through progressive tariff reduction and harmonization of foreign trade, trade of the subjection has registered most remarkable growth during the 1970s. In 1969 when the Cartagena Agreement was signed, the reciprocal trade of the five member countries amounted to only US $61 million. By 1979, the volume has increased to US $1,061 million, or a 16-fold increase. Because the starting points in 1969 were low, the subsequent increases therefore appear very high. Still, it is undeniable that much of the increased trade flow has been generated by the operation of the trade liberalization programme.

The real significance does not lie in the rapid growth of intra-regional trade as much as its structural change. During the same period, the share in traditional regional exports declined while that of the manufactured exports increased. As can be seen from Table 9, the proportion of manufactured exports in the Andean Pact subregion's trade increased from 25 per cent in 1970 to 65 per cent in 1979. This shows that the growth of intra-regional exports (excluding oil) has been largely a result of increased trade in manufactured products. The expanded regional trade opportunities were mainly captured by Colombia and Peru ar also to some extent by Ecuador as can be seen in Table 10. Bolivia was economically not developed enough to respond to the growing subregional market while Venezuela was all along oriented towards oil exports. The differential responses to the rising subregional trade opportunities as a result of the subregional arrangements for trade liberalization are brought out in Table 11. There was enormous difference between Ecuador and Bolivia in their initial response to the new market opportunities created by trade liberalization. The sharp rise of Ecuador's exports to the subregion clearly shows that the Ecuador economy was

Table 9. The Andean Pact: Structure of exports by production sector, 1970 and 1979

(Percentages)

	1970	1979
Total (millions US $)		
Andean Pact countries	111 (100)	1,289 (100)
World	5,380 (100)	24,166 (100)
Agriculture and cattle		
Andean Pact countries	33	12
World	24	16
Mining		
Andean Pact countries	12	4
World	17	12
Petroleum and derieved products		
Andean Pact countries	30	19
World	56	64
Industrial		
Andean Pact countries	25	65
World	3	8

Source: JUNAC, Socio-economic Indicators, 1970-1979, Lima, May 1981.

Table 10. The Andean Pact: Development of industrial exports[a/] by country, 1970 and 1979

(millions of US dollars and percentage of total exports)

	1970	1979
Bolivia	5.5 (2.4)	60.1 (7.0)
Colombia	94.7 (12.9)	1,168.5 (34.3)
Ecuador	19.9 (10.5)	195.3 (9.6)
Peru	38.4 (3.7)	835.2[b/] (24.8)
Venezuela	65.4 (2.1)	315.5 (2.2)

Source: JUNAC, Socio-economic Indicators, 1970-1979, Lima, May 1981.

a/ Products are those classified as type B by JUNAC

Table 11. The Andean Pact: Exporting of intra-subregional products under the programme of trade liberalization, 1970 and 1979

(million US dollars)

	Immediate opening		General list		Reserved for SPID		Bolivia and Ecuador w/o liberation		Petro-chemical		Automatic lowering of taxes		Automatic lowering of taxes (exceptional)	
	1970	1979	1970	1979	1970	1979	1970	1979	1970	1979	1970	1979	1970	1979
Ecuador	0.1	40.9	0.1	2.4	0.0	1.7	0.1	0.6	0.0	0.0	1.7	16.2	0.0	0.0
Bolivia	0.0	1.0	0.0	0.1	0.0	0.0	0.0	0.3	0.0	0.0	0.0	1.5	0.0	0.0
Colombia	n.a.	n.a.	0.3	18.1	1.6	28.3	8.5	76.3	0.0	7.3	0.9	188.8	0.4	197.0
Peru	n.a.	n.a.	0.0	1.9	0.8	7.8	4.4	186.2	0.0	11.7	0.2	49.8	0.0	13.8
Venezuela[a/]	n.a.	n.a.	0.0	1.6	0.0	18.1	0.0	1.9	0.0	7.3	0.0	2.1	0.0	2.9
Total	0.1	41.9	0.4	24.1	2.4	55.9	13.0	265.3	0.0	26.3	2.8	258.4	0.4	214.6

Source: JUNAC, Socio-economic Indicators, 1970-1979, Lima, May 1981.

a/ Venezuela starts at zero in each case as it was not included until 1974.

n.a. = Not applicable.

sufficiently "dynamic" to benefit from regional economic co-operation. Above all, the industrial maturity of Colombia is fully expressed in its dominant shares in various arrangements under the overall trade liberalization programme.

(f) Common external tariffs

More than the elimination of tariffs and non-tariff barriers to regional trade, the pattern of a regional integration scheme for developing countries is shaped by common external tariffs (CET). While the removal of tariffs fosters growth in intra-regional trade the CET is a crucial instrument that fosters regional industrial growth and regional industrial co-operation, as the CET affects the degree of protection to be granted to regional industries. In the longer run, the CET will determine whether the Andean Pact subregional co-operation will tend to prolong the import-substitution process or will lead to a new stage in its industrial development.

According to the Cartagena Agreement, the CET is to be introduced in two stages. The first stage is the common minimum external tariffs (CMET), which started in 1971 and was in full operation in Colombia, Peru and Venezuela in 1975. As usual, Ecuador and Bolivia were not obliged to adopt the CMET except for those products from outside the subregion, for which minimal duties would be adopted by three annual approximations. The second stage is concerned with the CET with definitive tariff levels, which are under negotiation.

The first CMET gave an average 40 per cent protection ad valorem, with a maximum protection of 110 per cent. Each of the Sectoral Programmes of Industrial Development has its own CET, with the average being 10 points higher than the CMET in force. Once a product is totally liberalized from duties, provided under the Trade Liberalization Programme, the product will be subject ot either CMET or CET, as the case may be. Member countries are not allowed to alter the common tariff duties unilaterally and have to consult others before committing themselves to any new tariff deal with a non-member country.

While it has been relatively easy for Andean Pact countries to implement the CMET, it proved to be quite difficult to set up the second stage of the CET, mainly because of the tremendous differences between individual member countries in respect of their preferred degrees of protection. It was

reported that Peru favoured an effective rate of protection not higher than 40 per cent, although it could accept the Colombian proposal of 60 per cent. However, Ecuador and Venezuela wanted an effective protection rate not lower than 80 per cent. It has been argued that a big reduction in the protection rate could result in disrupting the strongly protected domestic industrial sector of the Andean Pact group by exposing it to world markets, apparently with no immediate direct benefit whatsoever to regional integration efforts. It thus appears that measures for reducing in effective protection in order to bring greater efficiency to domestic industry could well clash with those undertaken to promote regional integration in order to encourage further development of import-substitution industrialization. Such a dilemma is often faced by regional groupings in the developing world. A heavily protected process of import-substitution always demands considerable sacrifices in terms of sub-optimal allocation of resources.

(g) The Joint Industrial Programmes (JIP)

Regional co-operation in trade is inseparable from regional co-operation in the field of industry. The sharp rise in the intra-regional trade in manufactured products has been the major source of the impressive growth of intra-regional trade in the Andean Pact region, as shown in the above section. But the increase in the regional trade for manufactured products depends on progress in regional industrial co-operation as well as the implementation of the selective trade liberalization programme. In the long run it is advanced in the field of industrial co-operation that would provide the dynamic impetus for further progress in regional economic integration.

The Andean Pact has several innovative approaches to regional industrial co-operation, as embodied in its Joint Industrial Programmes (JIP). Apart from fostering industrial growth in the subregion, the JIP is designed to achieve a regionally balanced pattern of industrialization and to prevent the uneven distribution of costs and benefits arising from economic integration. Thus the Cartagena Agreement has committed member countries to the process of regional industrial development through joint planning in order to realize, inter alia, the following major objectives: (1) Greater expansion, specialization and diversification of industrial production; (2) Maximum utilization of the available resource in the subregion; (3) Improvement in productivity and more efficient use of the productive apparatus; (4) The operation of scale economies; and (5) Equitable distri-

bution of profits. In addition, the Cartagena Agreement has also made speical provisions for Bolivia and Ecuador by assigning special production facilities and locating plants in these two countries under the overall regional industrial programme.

According to the Cartagena Agreement, the JIP is to be the main instrument for achieving a harmonious and balanced development of the subregion. To fulfil its objectives, the JIP is to operate through four major mechanisms: (1) The Sectorial Programmes for Industrial Development (SPID); (2) The Industrial Rationalization Programmes (IRP); (3) The Integrated Development Projects (IDP); and (4) The product reservations for Bolivia and Ecuador.

(h) The Sectorial Programmes for Industrial Development (SPID)

The Sectorial Programmes for Industrial Development (SPID) are the major apparatus within the framework of the Cartagena Agreement for regional industrial planning and for the equitable distribution of the benefits of the integration process. The SPID mechanism was designed to correct the potential imbalances and inefficiences that some less developed member countries had feared would appear when they were grouped together with the more developed member countries in a single market. It was also envisaged that industrial programming under the SPID would not be restricted to just geographical allocation of sectors or activities. To achieve an efficient growth for some manufacturing industries, other decisions were also centralized, e.g. marketing and technological development, within some kind of "multinational Andean corporations".

Needless to say there is a substantial difference between national indsutrialization programmes under import-substitution and the regional industrial development under the SPID. The difference arises from the size of the market and hence also the scale of operation. Typically, national industries under import-substitution in the Andean Pact countries are characterized by the lack of scale economies and high unit costs. Their continuing existence is made possible by strong effective protection created by high tariff and non-tariff barriers. Furthermore, inefficiency is not just a temporary phenomenon as in the case of an infant industry, but has rather become a permanent feature of the manufacturing sector in many Latin American countries. In contrast, the SPID is designed to cater for a regional market several times bigger than any individual national market.

More significantly, the SPID is not supposed to allow more plants to produce a commodity than will be efficient once the regional market is fully developed, i.e. only efficient plants, in terms of scale economies, are contemplated. Thus from the start, the SPID had to take into consideration the conflicting demands of national and regional interests.

Some elaborate approval procedures have been devised to screen the SPID projects. To begin with the SPID covered some 1,100 NABANDINA commodity items (later reduced to 851 items) specially reserved for sectoral industrial programming. The SPID projects would have to take into account a number of essential aspects or issues as stipulated in the Cartagena Agreement for the JIP, including the investment commitment and measures for ensuring its operation, problems related to policy harmonization and trade liberalization, and the common external tariffs (CET) requirements. Specifically, member countries were required to stick to the requirements of the CET and not to deviate from them unilaterally. The idea is to ensure that the products of the SPID projects would be adequately protected in the regional markets from competition from similar products of a third countries. In assigning the product-families to specific member countries, it would appear that the Cartagena Agreement Commission takes away from the market the basic decision of where to invest. Actually the role of the market has not been entirely eliminated from the succeeding phases of programmes. Centralization of decisions on where to invest is accompanied by more decentralized control of how much, when and how to produce - one of the mechanisms of control being the CET, which sets the maximum surcharge in relation to the international prices that the exporting country can impose. Furthermore, member countries are not forbidden to employ incentive measures to promote exports of the SPID products. In this way, the SPID is supposed to embody sufficient institutional flexibility to allow for an appropriate mix of planning and marketing for the regional projects.

To date, three SPID projects have been approved: the Metal Fabricating Programme, the Petrochemical Programme, and the Automotive Industry Programme. In particular, the package on automotive industry has received wide attention outside the region.

(i) *The Metal FabricatingProgramme (MFP)*

The MFP, originally with the participation of Bolivia, Chile, Colombia and Peru, was approved in 1972. With the departure of Chile from the Andean

Pact and with the entry of Venezuela, the programme had to be revised in 1979. The scope of the MFP is rather limited, covering only parts of the metal fabrications. It consist of 267 NABANDINA items, grouped into 76 units on the basis of technical and economic criteria of minimum efficiency size. The 76 units are further divided up into the following components: 21 for specialized machinery, 15 for general machinery, 11 for machine tools, 7 for electrical equipment, 1 for transport equipment, 14 for miscellaneous instruments and tools, and 7 for consumer goods. It can thus be seen that the programme is basically concerned with capital goods production. Some of the 76 units are allocated to specific member countries in totality while others are divided up.

A common external tariff is set up to maintain preference margins for subregional production vis-à-vis products from a third country. The tariff levels vary between 20 per cent and 80 per cent, with an arithmetic mean of 51 per cent. Of the items forming the programme 87.6 per cent have CET preferences of 40 per cent - 65 per cent. In addition, member countries also undertake not to set up new production facilities or to expand existing setups for the designated products within a specific period. Nor could member countries authorize new foreign investment commitments for the designated products.

So far 122 of the 267 core items of theprogramme have been approved. But the progress of the approved items in countries has not been even with Colombia and Peru taking the lead. A total of 153 companies are involved in the production of the approved items mainly parts or components for machinery. It is of interest to note that the degree of integration achieved by the companies or firms has been relatively high, especially in the context of the stage of industrialization of the member countries. Roughly 80 per cent of the Peruvian and Venezuelan companies show a level of integration of over 70 per cent. The subregional trade for the designated products has also registered impressive growth, rising from US $5.6 million in 1975 to $17.8 million in 1979.

(ii) The Petrochemical Programme (PCP)

The PCP of the Andean Pact group was originally an outgrowth of the similar project initiated by LAFTA before the formation of the Andean Pact. In 1968, Bolivia, Colombia, Chile and Peru signed an agreement to take part in the first Latin-American multilaterial programming of the petro-

chemical industry. The principles of the agreement, which covered the methods of allocating products to participating countries and the participants' undertaking not to duplicate the designated production activities in their territories, were subsequently incorporated in the PCP of the Andean Pact group.

In October 1970, the Commission of the Cartagena Agreement resolved that the original LAFTA petrochemical project be adapted and programmed within the Andean Pact context, with all the Andean Pact members participating. The Andean Pact's own PCP was designated for better utilization of the hydrocarbon yielding resources of the subregion, for higher productivity and for more efficient development of the petrochemical sector. The idea was to replace subregional imports of these products and eventually to develop export markets for them. Covering 161 products of which 56 were allocated in totality or in a shared form among the member countries, the PCP was to operate on an "open market model", with a relatively low level of protection and allowing linkages with third countries. It was envisaged that once the PCP had reached full scale operation and maturity, it would make it possible for each of the Andean Pact countries to have integrated modern petrochemical complexes, ranking next only to those found in the industrially advanced countries.

The capacity of the petrochemical industry in the subregion in 1975 is shown in Table 12. The value output of the PCP for 1975 was estimated to be US $110 million, equivalent to one-third of the subregion's total demand. It was projected that by 1985 the total value output of the PCP would reach US $830 million, which would be adequate to meet the subregion's total demand. The initial capital investment for the entire PCP was estimated to cost US $2,000 million.

It is expected that for a SPID project of this kind involving heavy capital investment and high technology, extensive bilateral and multilateral supplementary agreements must be made. The internal markets of the member countries are obviously too small to sustain an integrated complex and hence a great deal of regional co-operation arrangements are required. The key instrument for facilitating the development of PCP is the common external tariff.

For the PCP, the CET levels of protection were established between 20 per cent and 35 per cent in nominal terms. The CET would come into effect immediately for existing production or for new production under

Table 12. The Andean Pact: Existing capacity of petrochemical industry, 1975

(Thousands of tons per annum)

	Colombia	Peru	Venezuela
Basic products	183.4	9.1	-
Allocated intermediate and finished products	215.4	81.6	76.0
Unallocated intermediate and finished products	144.5	60.8	90.0

Source: MITI, Office of Secretary of State for Integration, Lima.

planning. To harmonize the tariff regimes, exceptions for related imports and subsidies for related exports were abolished. Once again, preferential treatment for Bolivia and Ecuador was granted through special exemptions or by allowing them longer periods of adjustments.

The implementation of the PCP has lagged behind schedule. Between 1975 and 1980, the Andean Pact group increased its installed petrochemical capacity by 481 tons per year. Nearly 60 per cent of the increase was attributable to plants in Venezuela, 30 per cent in Colombia, 8 per cent in Peru and less than 1 per cent to plants in Ecuador. Venezuela and Colombia accounted for 45 per cent and 43 per cent of the total installed capacity respectively. The slow progress of the PCP is clearly manifested in the fact that the Andean Pact countries are still heavily dependent on supplies for the petrochemical products originating from sources outside the subregion.

(iii) The Automotive Industry Programme (AIP)

In developing countries all over there is a rising demand for automobiles, particularly passenger cars. But this is one manufactured product which clearly carries scale economies often exceeding those which can be provided for by the small domestic markets of most LDCs. Hence the automotive industry is often the favourite project for most regional economic co-operation efforts in the Third World. Such has been the case for ASEAN and for the Andean Pact group. In 1980, the Andean Pact group represented a market of 300,000 vehicles, which was expected to more than double by 1988. A ready-made market is there. Back in May 1971, the meeting of Andean Pact Industry

Ministers in Bogota resolved that high priority was to be assigned to the proposal for AIP, which was finally approved in September 1977.

There were several obvious reasons for the Andean Pact Industry Ministers to attach high priority to the implementation of the AIP. Firstly, the programme would be conducive to employment creation, technological development and foreign exchange savings for the subregion. Secondly, it would provide a basis for a much needed rationalization of the subregion's existing automotive industries. Thirdly, the programme would bring about an extended market needed for the efficient operation of the automotive industries, particularly the components and parts. Last but not least, it was considered that the programme would provide the much needed economic linkages for the development of the subregion's fabricating industries.

As for the scope of the AIP, vehicles are grouped into three categories: Category A for passenger cars and their derivatives; Category B for commercial vehicles and their derivatives; and Category C for the four-wheel-drive vehicles. Each category was further divided into subgroups as follows:

Category A1	:	below 1050 cylinder capacity (cc)
Category A2	:	between 1050-1500 cc.
Category A3	:	between 1500-2000 cc.
Category A4	:	above 2000 cc.
Category B1.1	:	below 3000 kg of vehicle gross weight
Category B1.2	:	between 3000-4600 kg.
Category B2.1	:	between 4600-6200 kg.
Category B2.2	:	between 6200-9300 kg.
Category B3	:	between 9300-17,000 kg.
Category B4	:	above 17,000 kg gross weight.
Category C	:	four-wheel-drive with gross weight up to 2,500 kg.

The components also cover three large groups: (1) Basic components demanded as a "condition of national manufacture" (DCM); (2) Components originating from the subregion (DOS); and (3) Components not demanded for the purpose of SPID(ND). In accepting the alloted vehicles, member countries are obliged to produce or use the DCM components. Those DCM components which are commonly used in great amount are alloted to some member countries for specialization. Each must produce DCM components for use in its alloted vehicle or else that vehicle could not enjoy preferences from the subregional market. After fulfilling its national requirement, a member country could voluntarily manufacture components for use in vehicles assigned to other

member countries. If that component could be produced efficiently, the Board could designate to it a subregional status. In this way, a component is initially manufactured as a DCM to meet the national requirement and then becomes a subregional product (DOS).

The "basic model" consists of a set of parts and components, the characteristics of which are defined for the purpose of identifying a subregional vehicle. Each member country is to select a basic model within each category and is to inform the Board of the main technical characteristics of the essential parts and components such as the engine, gearbox, the axles etc. Member countries can produce different versions of vehicles from the basic model in order to meet their market demand provided that the variations and modifications do not differ fundamentally from the basic model assigned to them.

Standards are also set in respect of the origin and degree of integration for the components. By "original vehicle" is meant one which is manufactured in accordance ith the basic model chosen by the member countries concerned, and which incorporates the components demanded as the condition for national manufacture (DCM). The DCM components, in turn, must be produced with a degree of national integration for which the reference value of imported parts should not exceed 30 per cent of the reference value of the components incorporated in the vehicle. This means that the degree of integration would be of not less than 70 per cent. DCM components required national integration while DOS components, subregional integration. An "original vehicle" is also called a "subregional vehicle", and it contains "original components", i.e. both DCM and DOS components. Once the prices of the DCM components become equal to or less than the prices of those imported from outside the subregion, the DCM components are to be treated as subregional components (DOS).

There are other built-in-flexibilities in respect of the components. In case some DCM components could not meet the required national integration standard, the Board could authorize higher import contents. To avoid "over protection" for the DOS components, the Board from time to time assesses the levels of CET protection in accordance with the movement of international prices for similar products.

Apart from the ruling on components, several sub-agreements in regards to co-production, assembly and complementation may be of interest. Article 20 of the AIP states that co-production agreements may be entered into

between two or more countries sharing the assignment of the same vehicle, or between those on the assigned vehicle and others not on it. The idea is to encourage specialization in production. But certain pre-conditions must be met before co-production would be authorized. The components must be demanded as a condition for national manufacture (DCM) and the country taking up the components must have fulfilled the required degree of national integration.

Likewise for assembly arrangements, the assembling country should include the components incorporated by the assignee country. In the event that Colombia, Peru and Venezuela should decide to go into assembly arrangements for vehicles already assigned to Bolivia or Ecuador, they would have to incorporate the components demanded as a condition for national manufacture for Bolivia and Ecuador. On the other hand, if Bolivia and Ecuador were to go into assembly arrangment with Colombia, Peru or Venezuela, the former might incorporate the components produced by themselves, as specified in the basic model assigned to them.

For complementation, two or more member countries may enter into complementation agreements for the production of parts and components, demanded as a condition for national manufacture for vehicles assigned to these countries. Through this mechanism member countries could specialize in the production of certain parts and components with a higher production efficiency.

The Andean Pact trade liberalization programme and the common external tariffs (CET) are crucial for the implementation of the AIP. Member countries were required to eliminate restriction of all kinds on the import of products covered by AIP programme. With effect from 31 December 1981 Colombia, Peru and Venezuela would lower their national tariffs by three equal, annual and successive reductions; and for Bolivia and Ecuador, by six annual successive reductions, starting on 31 December 1983. With reppect to DOS components, Colombia, Peru and Venezuela would apply duties from December 1978 not higher than the levels set for the CET. Afterwards these three countries would eliminate such duties among themselves in five successive annual reductions, starting from December 1979, with preferential treatment for Bolivia and Ecuador, which would in turn make their markets available to the three.

As for the CET, member countries undertook to impose duties on the import of products covered by the AIP, not originating from the subregion. Member countries whose national tariffs on the subregional vehicles were

lower than those set for the CET would bring up their national tariffs gradually to the CET levels by December 1983, except for Bolivia and Ecuador which could prolong such an "approximation process" until 1988. Similarly, member countries whose tariffs for some vehicles exceeded those provided under the CET would have to make the adjustments after 1983; and for Bolivia and Ecuador, after 1988. In all cases, member countries are expected to make a commitment towards the adoption of the CET as soon as subregional vehicles start their production. The norms of the CET are compulsory for all the member countries, which may not defer their application or unilaterally alter the common duties.

For ordinary components, the CET was set at levels ranging from 35 per cent to 55 per cent. For DOS components, member countries undertook to bring their existing national tariffs to approximate the CET levels by December 1983; and for Bolivia and Ecuador, by December 1988. To make use of the market of the third country to complement the expanded regional market, components from outside the subregion could be imported as the counterpart of an export and be accorded preferential treatment.

Of equal importance has been the undertaking given by the member countries to avoid duplication of activities. It was agreed that member countries would not promote new facilities to produce vehicles designed to other member countries or to produce components required as a condition of national manufacture of a different member country without appropriate authorization. In case that existing facilities were already in existence, member countries would refrain from expanding or upgrading those facilities, especially in respect of components not for the domestic market. Besides, member countries would refrain from expanding or upgrading those facilities, especially in respect of components not for the domestic market. Besides, member countries agreed not to accept direct foreign investment for the production of vehicles allocated to other countries for DCM components required by other member countries. Foreign participation in the regional projects would have to follow a unified approach under regional arrangements. In fact, the Andean Pact group met in September 1977, after the approval of the AIP, to agree to ways and means for negotiations with the transnational corporations (TNCs) possessing the required technology for manufacturing the DCM components. From the standpoint of TNCs, it is not just the technological requirement, but also the overall economic condition of the subregion as well as the feasibility of a particular basis model that will ultimately determine their final commitment to participate in such a subregional

project. Generally, the TNCs would favour more projects that employ the most advanced techniques or project closer in line with overall development of the world automotive industry. Thus the choice of basic models is crucial in determining the level of foreign participation.

Apart from the above commitments, arrangements to harmonize policies related to foreign exchange, credit, state procurement, intra-regional exports etc. are also essential for the smooth progress of the AIP. A proposal covering norms for harmonizing tax legislation in respect of domestic taxes applied to vehicles was submitted to the Commission in 1978, by which member countries also undertook not to operate differential rates of exchange for imports and exports of the AIP products, not to apply discriminatory credit and price regulations against the AIP products manufactured in other member countries. The ex-factory prices of the AIP products for exports to other member countries should be the same as their prices in the domestic market.

Finally, the AIP also contains provisions for the exchange of information converning new foreign investment commitments and the development of new technology in the automotive industry. Agreements have also been reached in regards to the technical standardization such as product specifications and certification of quality. All these measures in the long run would strengthen the technical and economic base of the automotive industry in the subregion.

It is conceivable that a SPID project as ambitious as the AIP, with its inherent technical and economic complexities, is bound to encounter numerous difficulties in implementation. But the Andean Pact group still considers the AIP a worthwhile undertaking. Thus the planners have set about the task of studying and defining the conditions for adjusting the programme with a view to bring it in line with the new reality of the world automotive industry.

In 1980, the total demand for automobiles in the subregion amounted to 300,000 units. In order to make regional car production fully efficient, the AIP only allows one regional model of small cars (up to 1050 cc), two models of small and medium cars (1050-1500 cc), three models of medium to big cars (1500-2000 cc) together with two local assembly plants. It would thus seem that considerable production capacities for each model exist and the projected market potential would create sufficient demand. By the

end of 1980, the models had been assigned to member countries. In fact, some countries have already reached production agreements with certain international automobile companies. Thus the AIP, despite some teething problems, is poised to take off and holds the promose to be the most significant SPID project.

(i) The Industrial Rationalization Programme (IRP)

Apart from the SPID, the Industrial Rationalization Programme (IRP) is another pillar of the Andean Pact Joint Industrial Programmes. Whereas the SPID is largely geared towards the development of large capital-intensive industries, the IRP is concerned with restructuring and streamlining of the existing (largely the traditional) industries in the subregion, activities that are excluded from the trade liberalization scheme. From the standpoint of regional integration, the SPID forms the core of the joint industrial programming. But the IRP is no less important, especially for the less developed members, whose traditional industries are not sufficiently efficient. The rationalization process would first result in the upgrading of the less efficient industries and then bring them out from the "exception list". In this way, the IRP would expand the scope of regional industrial integration.

The concept of the IRP is contained in article 36 of the Cartagena Agreement. Decision 25 of the Commission further defines industries for rationalization as those which are not included in the "reserve" for SPID or those not subject to the automatic tariff reduction. This is sometimes quite confusing as products "reserved" for SPID such as automobile are also products from the "existing industries".

At the micro-level or plant level, rationalization is traditionally linked to industrial engineering and other production techniques which can boost productivity. In the organizational sense, rationalization includes simplication of administrative procedures and managment reorganization. Besides, rationalization also involves higher-level decisions such as takeovers, mergers, and multi-plant streamlining of product lines, and so on. From the standpoint of the economist, rationalization ultimately involves more efficient allocation of scarce resources. In this sense, trade liberalization would indirectly constitute one of the best rationalization programmes, as it could lead to the rise of more efficient industries due to increased competition.

It was only in 1976 that the Board produced the first conceptual documents for the IRP, which attempted to provide clear guidelines for the future rationalization activities. The doucment linked IRP to the formation of the enlarged Andean market. The process of the IRP could result in the reduction of protection and then increased efficiency for certain firms.

After October 1976, there were no further official statements on IRP until early 1980 when the Board published a study on the methodology for the choice of priority industries in the exception lists and other technicalities concerning rationlization. Subsequently two pilot studies on bicylces and textiles were also put out. New perspectives have been increasingly brought into the IRP; which include: (1) Linking IRP to structural adaptation of firms as their long-term strategy; (2) A shift of emphasis from the negative aspects of the intra-Andean trade to its positive aspects due to the widened regional market; (3) An explicit policy of implementing IRP by providing incentives and assistance to firms rather than by direct intervention; and (4) A procedure for generating IRP processes in the member countries through the existing technical, financial and training institutions.

As in other programmes, the economically less developed members of the Andean Group, Bolivia and Ecuador, (which together account for only 10 per cent of the Andean Pact's total industrial output), are to receive special attention for IRP treatment. On the one hand, the relatively backward industries of Bolivia and Ecuador are badly in need of an increase in competitive efficiency. On the other hand, it seems relatively easy to organize rationalization efforts for these two countries as their industrial structure is still simple. Meanwhile, the Board has sent technical missions to Bolivia and Ecuador to study the problem of their manufacturing sector.

At the outset, the small and medium industry in the subregion was supposed to be the main target for industrial rationalization. In fact, some Andean Pact countries have special organizations to promote small and medium industries because of their importance in employment creation. It was later felt, after some analytical studies of small and medium industries, that rationalization of industries, large or small, would in the first instance have to fulfil the objective of economic efficiency rather than subsidizing the

inefficient industries for certain social goals. This brings to the fore some inevitable conflict between a broad support for small and medium industries on the one hand and the primary requirement of rationalization for achieving efficiency and growth on the other. The official position of the Board is that action regarding the small and medium industry of the Andean Pact should be oriented towards improving the efficiency of the enterprises under IRP. Attention is now given to bicycles, textiles, and mining equipment.

(j) Product reservation for Bolivia and Ecuador

Third World economic co-operation efforts often run into difficulties because their constituent member countries are often not at the same levels of economic and social development. Most economic integration programmes tend to carry uneven distribution of benefits and costs so that the more developed members tend to stand to gain more than the lesser developed ones. In the case of the Andean Pact group, the lesser developed are Bolivia and Ecuador. From the outset, the Cartagena Agreement provided for preferential treatment of these two countries so as to avoid unbalanced development following from the retional economic integration process.

The preferential treatment of Bolivia and Ecuador is provided in virtually all the mechanisms and programmes of integration covered by the Cartagena Agreement. In particular, the Commission of the Cartagena Agreement approved a special programme to support Bolivia, which is the least developed member in the Andean Pact group. Lacking adequate infrastructure and capital and skilled human resources, the land-locked Bolivia has been entrapped in various problems of economic backwardness. Thus special efforts are necessary to aid Bolivia in upgrading its economy in order to benefit from the integration.

In the area of trade liberalization, tariff concessions were made for a list of products originating from Bolivia and Ecuador right from 1 January 1971 so as to allow them immediate participation in the extended regional market. Since 1974, about 2,370 NABANDINA commodity items from Bolivia and Ecuador have enjoyed complete exemption from duties and restrictions in the subregion.

More significantly, markets were reserved from April 1974 on for a range of products originating from these two countries in order to promote their own industrial development. The list of products has since been updated and extended. To facilitate the development of SPID in these two countries, certain products not produced so far were also reserved for their production by Decisions 28, 108 and 137.

To start the reservation process, Colombia, Peru and Venezuela immediately opened up their markets completely for exports from Bolivia and Ecuador, for a specific period, which in some cases extended up to 10 years. To reciprocate, Bolivia and Ecuador would open up their markets to the products on the reserved list from Colombia, Peru and Venezuela; but these products were subject to tariffs as though they were produced from outside. In this way, products reserved for production in Bolivia and Ecuador were assured of margins of protection.

After the Board had established a list of products reserved for production in Bolivia and Ecuador, other member countries undertook not to adopt measures to encourage similar activities in their own territories. Once production for the reserved products had started, other member countries would set up the CET for these products accordingly. On the other hand, Bolivia and Ecuador were obliged to go into production of the reserved products accordingly. On the other hand, Bolivia and Ecuador were obliged to go into production of the reserved products in their favour within given periods, failing which the market reservation process would lapse.

Specifically, for the SPID, if some SPID products were not already on the reservation list, the Board would add new products to make up the list. Thus the Board had submitted 12 items of chemical and pharmaceutical products reserved for production in Bolivia, and 18 for Ecuador.

In theory, the mechanism of product reservation seems to have provided the less developed members, Bolivia and Ecuador, ample opportunity to initiate new industries or to upgrade the existing facilities to gear to regional integration. In practice, however, not all the opportunities thus created have been fully utilized by Bolivia and Ecuador on account of their own institutional constraints or other domestic economic problems.

(k) Harmonization of eonomic policies and other aspects of co-operation

The success of regional economic integration efforts is normally measured by the progress of the integration programmes such as trade liberalization measures, the SPID and so on. But the successful implementation of the individual integration programmes, in turn, depends on their objective conditions. Clearly at the "macro-level", if the general climate for integration could be made more conducive and if there were more co-ordination and harmony among member countries in respect of their overall economic and social policies, a favourable precondition would exist for the smoother implementation of the various integration programmes. Hence the need for the harmonization of economic and social policies and the co-ordination of national economic plans in the Cartagena Agreement.

The main decisions approved by the Commission of the Cartagena Agreement in the field of harmonization of economic policies include: (1) Common regulations for the treatment of foreign capital, trade marks, patents, and licensing and royalities; (2) Convention to prevent double taxation between member countries; (3) Uniform regulations governing multinational corporations and treatment applicable to subregional cpaital; (4) Rules to prevent or correct practices which might be harmful to the well-being of the economy of the subregion such as dumping, hoarding, unfair competition etc; (5) Moves to harmonize legislation for industrial promotion in the member countries; (6) Establishment of a common tariff nomenclature for the Andean Pact group, called NABANDINA; (7) Means and measures for harmonizing or co-ordinating national development plans; and (8) The Andean policy for social security and for labour migration.

(l) Common policy towards foriegn investment

Special mention must be made of the common policy towards foreign investment, first approved in 1970 and amended in 1976. It covers a number of rules and regulations for foreign capital and foreign technology to operate in the Andean Pact countries in order to safeguard the interest of the member countries. It is well-known that when liberalization of reciprocal trade is not accompanied by co-ordinated industrial development policies and uniform treatment of foreign investment, the integration process could well weaken the position of the member countries vis-à-vis

the big TNCs. This is because integration, in opening up the region's markets, offers TNCs access to the markets of all the member countries and provides them an opportunity to take undue advantage of some member countries. Hence the need for a unified and definite policy to cope with foreign investment on a collective basis.

Right from the beginning, the Board and the Commission of the Cartagena Agreement thought it advisable to establish strict but stable regulations for the treatment of foreign capital. It was also thought that in this way TNCs would be attracted to the subregion to operate joint ventures with either the state or the private sector in the subregion. The relevant regulations are contained in "Decision 24", which seeks to establish a common set of rules with the minimum restrictions to be applied by each government to foreign capital, but which also allows individual governments to subsequently legislate stricter norms if deemed necessary. In view of the obvious difficulties of reaching an agreement on issues of this kind, the Decision 24 provides for differentiated treatment of activities "closely linked" to integration and other activities. Foreign investors in the first group of activities may not receive more favourable treatment than that prescribed in the common norms, whereas other activities may be granted exemptions by specific countries. Some of the fundamental aspects of the common foreign investment policy need elaboration.

Firstly, the policy is stable or predictable in that it cannot be modified unilaterally but only through the consensus of several member countries. Secondly, it is sufficiently selective as each new foreign investment requires the express authorization of a national body responsible for approving foreign investment projects. Thirdly, the agreement regulates the use of internal and external credit. Fourthly, automatic reinvestment of profits and purchases of shares in domestic enterprises are restricted in order to prevent foreigners from acquiring large interests in domestic companies. Finally, the Decision 24 recommends the exclusion of foreign interests from certain strategic sectors such as financial activities, advertising and communications media.

Norms have also been set for TNCs to transfer ownership to domestic firms. Three categories of firms are defined, according to the composition of their capital: national, mixed and foreign. National firms are those with more than 80 per cent domestic capital; mixed are those with a domestic capital share between 50 and 80 per cent; and foreign firms are the remainder. The Decision 24 stipulates that all foreign firms taking advantage of the expanded

regional market are required to be transformed gradually into mixed enterprises generally within a period of 15 years, or they would not be afforded the benefits of integration such as reduced tariffs within the Andean Pact market. Enforcement of this provision is to be left to the individual member countries. It is also specified that foreign investors can repatriate profits up to 20 per cent a year, but the individual member countries are given the authorities to alter this percentage.

The unique feature of the Deceision 24 is the ways it seeks to rationalize the treatment of foreign capital on a unified basis; but at the same time it gives individual member countries sufficient flexibility to fine-tune their own foreign investment policy as well as the authority to implement the Decision. It was anticipated that the rationalization process would have the effect of discouraging the entry of some TNCs and causing the exodus of others, particularly those primarily geared to the domestic markets under the shelter of high protective tariffs. It was thought that such a common approach to foreign investment would in the long run work to the advantage of the subregion. It would increase the effective bargaining power of the Andean Pact countries vis-à-vis the normally powerful TNCs while at the same time operate as a screening mechanism for channelling the right types of foreign capital and foreign technology to meet the subregion's economic development. Between 1971-1977 foreign investment in the subregion grew at the average rate of 7.6 per cent, as compared with the -0.4 per cent for the period 1967-1971 before the Decision 24 went into operation. At least, this can be taken as an indication that the harmonization of foreign investment policy has not disrupted the inflow of foreign investment to the subregion.

(m) Financial co-operation

Regional industrial integration must proceed hand in hand with some form of regional financial arrangements. One important area of harmonization is therefore co-ordination in finance and payments. Even more, there should be regional facilities for channelling public and private savings in the subregion for the promotion of regional trade and regional industrial development, and the creation of other subsidiary financial facilities such as the system of multilateral compensation of balances and a common reserve fund.

The main financial organization is the Andean Development Corporation (Corporacion Andina de Formento, or CAF), founded in 1968, before the formation of the Andean Pact. The CAF has US $400 million as authorized capital. Its chief function is to promote regional integration by giving financial and technical support to regional projects and approved complementating schemes. It also aims at promoting the overall financial development of the subregion and acts as the main instrument for co-ordinating the subregion's financial matters.

CAF has so far approved financial activities amounting to US $500 million, operated through two "windows": investment financing and trade financing in the Andean Pact countries. In 1974, the CAF created an organization, the Andean System of Trade Financing (SAFICO) to specialize in the financing of intra-regional trade and trade between the Andean Pact countries and those outside the subregion. The SAFICO operates through exporter's or buyer's credit for non-traditional goods of the subregion. Minimum amount for such credit is US $10 million from one year up to five years, with an interest rate currently at 13.5 per cent. To help member countries to ease the problem of temporary payments difficulty, another specialized institution, the Andean Reserve Fund (FAR) was created in 1978.

Currently the CAF is placing high priority on agricultural and agro-based industrial projects, with particular attention given to new technology inputs provided through such projects. It has also undertaken industrial development studies such as industrial rationalization in the Andean Pact group.

Other actions in the fields of financing and capital movement have been the recent revision of Decision 24 to facilitate the reinvestment of profits by existing companies, and new regulations for the treatment of subregional capital.

(n) Technological co-operation

The Cartagena Agreement covers technological policy for the subregion and provides for the estbalishment of the Andean System of Technological Information (SAIT) and the Andean Programmes of Technological Development (PADT). The SAIT functions as a clearing house in the subreigon for the exchange of technological information whereas the PADT aims at promoting assimilation and development of technology relevant to or appropriate for the subregion.

The PADT has since developed a few significant technological programmes for the subregion. Firstly, the Andean Project for Technological Development in Copper Hydrometallurgy was approved. This was designed to step up the transfer and adaptation of technologies concerning copper extraction by acid solution, copper extraction by bacterian-acid process, and recuperation through ion exchange and electrode position. The project was also involved in the training of qualified personnel as well as in adapting and integrating the advanced equipment and technology from the transnationals for regional application. Obviously, the main beneficiaries of this project are the copper producing members, Bolivia and Peru.

Secondly, the Andean Forest Project was set up with a view to conduct research and disseminate knowledge in regards to the timber and other forest resources in the subregion. Work on testing various forest species has been carried out and new technology for timber exploitation has been developed. Sepcifically the Andean Laboratory of Wood Engineering was founded in Lima and the Andean System of Classification of Structural Wood was developed.

Thirdly, the Andean Project of Food Technology was approved by Decision 126. The project has five programmes designed to carry out research on the production, marketing and consumption of food in the subregion, with a view to develop food of high nutritional value and low cost for groups like children and pregnant women.

Finally, a programme for promoting social and economic development of the rural environment was set up the PADT. The programme is charged with the generation and transfer of technology related to the development of a sound rural environment.

Apart from activities within the two formal organization, SAIT and PADT, regional technological co-operation as provided by the Cartagena Agreement also includes appropriate legislations for marketing technology, patent rights and the legal aspects of technology transfer from outside the subregion.

(o) Agricultural integration

One distinguishing feasture of the Andean Pact integration process is, at least from the view point of ASEAN, its incorporation of a special system for agricultural co-operation. The economic and social importance of the

agricultural sector in the developing economies hardly needs any emphasis. Suffice it to say that the Andean Pact group has recognized the vital role played by agriculture in its contribution to raising the level of living of broad segments of the population, in its developing the renewable resources, in its saving of foreign exchange by replacement of imports, and in its providing a market as well as a wide range of inputs for the industrial sector. For all these reasons, the agricultural sector is included in the subregion's overall economic integration process.

The Cartagena Agreement provides that the Commission would study and approve joint programmes of agricultural development by products or groups of products through a common system of marketing or through co-ordination in agricultural planning and agricultural research. Joint programmes have also been initiated in regard to agricultural exports and agricultural financing. The ultimate objective is to achieve some kind of common agricultural policy oriented towards agricultural development. The institutional structure for achieving agricultural integration consists of the Annual Meeting of Agricultural Ministers, the Agricultural Council, the Units of Agricultural Integration, and the Technical Meetings of Government Experts. Activities for agricultural integration range from production, marketing, health, training to planning.

For agricultural production, the Board and the relevant authorities from the member countries have developed projects for increasing output of cereals, oil seeds, meat and dairy industries. Promotion activities include the processing of palm trees, certification and trading of seeds, joint purchases of wheat, and agro-industrial activities covering dairy and meat products. Specific integration programmes cover arrangements between two or more member countries for the planning and financing of production and other aspects of agronomical development, including the creation of regional companies for certain agricultural products.

For marketing, focus is on the creation of basic conditions and improvement of institutional structure for accelerating agricultural trade. To this end a provisional system of technical rules for agricultural products is under preparation. A Directory of Agricultural Importers and Exporters in the Andean Group has been issued, and the first Andean Agricultural Exhibition has been organized. In addition, plans are on hand for the establishment of storage facilities for grain and for the perishable products.

Besides, there are joint programmes covering animal and plant health, such as the Andean System of Agricultural Sanitation, and procedures for the harmonization of national agricultural development policies. Arrangements have also been made for training and technical co-operation in agricultural development. To date, over 1280 personnel have been trained for agricultural development. Finally, a Special Programme for the Agricultural Development of Bolivia has been created, as a result of the Second Meeting of the Agricultural Ministers of the Andean Group. The mainstay of this programme is the estbalishment of the Cattle Fund and the National Seed Company.

(p) Other areas of integration

Although harmonization of national economic policies of the member countries will increase regional economic integration, harmonization of social policies could also contribute to the goal of integration. Thus the Cartagena Agreement contains measures for co-operation in the fields of education, culture, science, labour and health. Activities in these areas are designed to increase the general consciousness of the people in the subregion towards regionalism and to promote fraternity between member countries, so as to develop a strong regional identify. In fact, harmonization of social and labour legislation, and co-operation in science and education can produce concrete results in terms of making direct contribution to regional integration efforts. So does co-operation in public health. Many of these activities carry spillover effects in the subregion as a whole, and co-operation is necessary even if there were no Andean Pact.

Of even greater importance is "physical integration", which refers to regional co-operation activities involving energy, communications and transport. The Council of Physical Integration was created to take charge of arrangements which would promote the physical contact of member countries through such projects as interregional highways. Development in this area has actually produced favourable side effects such as the growth of regional tourism and intra-regional trade.

In short, the subregional economic integration in the Andean Pact is proceeding on a wide front. While substantive progress of the integration still depends on such formal instruments as trade liberalization and the sector-based industrial programming, harmonization of a wide range of economic and social policies have also directly and indirectly contributed to the successful endeavour of the Andean Pact group towards regional economic integration.

Chapter IV

OBSERVATIONS AND CONCLUSIONS OF THE ASEAN/ANDEAN PACT CONFERENCE

As mentioned in Chapter I, in order to provide an opportunity for key officials concerned with co-operation in ASEAN and in the Andean Pact to exchange experience and discuss in-depth various issues of mutual concern, such as instruments and mechanisms of regional industrial co-operation, a conference was held at the Secretariat of the Andean Pact (JUNAC) in Lima 11-14 October 1982 followed by a 10-day study tour by the ASEAN participants to the capitals of the five Andean Group countries.[1/] The conference and study tour was financed under the UNDP Inter-country Programme for Asia and the Pacific and organized by UNIDO in co-operation with JUNAC and the Andean Pact countries concerned. On the ASEAN side the participation was co-ordinated by the ASEAN Committee on Industry, Minerals and Energy (COIME).

(a) Summary Report

A short summary report of the general issues covered was adopted at the end of the conference, including following observations/conclusions/considerations:

> The Conference observed that ASEAN's efforts at regional co-operation are more towards economic co-operation schemes while the Andean Group's efforts at regional co-operation are clearly an integration arrangement. In this sense, the Andean Group's experiences at economic integration provides ASEAN with a useful insight to whatever long-term co-operative arrangement ASEAN is leading to.
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> The Joint Industrial Programming of the Andean Group was especially studied because of its advanced integration form in the industrial field. It has as an antecedent some experiences gathered in the Latin American integration process which was based almost exclusively on trade liberalization.
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> The Joint Industrial Programming has several specific instruments such as the Sectoral Industrial Development Programmes, the Rationalization Programmes, the Inter-sectoral Programmes of Industrial Development, the Integrated Development Projects and the market reserves and special treatment in favour of Bolivia and Ecuador in view of their relatively lower stage of development.
>
> The Conference observed that there is a strong political backing behind both ASEAN's economic co-operation programmes and the Andean Group's integration process. In both cases however, there is a need to review past performance with the aim of adding momentum to the ASEAN's efforts at economic co-operation and the Andean Group's integration arrangements.

1/ Report on the ASEAN/Andean Pact Conference and Study Tour on Regional Industrial Co-operation 11-23 October 1982. UNIDO/IS/R.9.

The JUNAC indicated tentatively joint international action, trade in manufactures and the exchange of information as areas in which co-operation between the two regional groupings could be explored.

Information of special interest for ASEAN/COIME would be on the following areas: rationalization/restructuring of industries against the background of changing industrial conditions; industrial progamming; harmonization of tariffs within the subregion and imposition of a common external tariff as a means in support of industiral development; methodology of the Andean Group to assess the impact on their industrial development of trade liberalization measures during the last decade; and the computer model used by the Andean Group for industrial sectoral programming with intent of looking into the practicability of its application potential in ASEAN.

With respect to reciprocal trade in manufactures, ASEAN/COIME considered that it could be convenient to promote the expansion of such trade given a prior identification of products.

ASEAN/COIME indicated that their visit to the Andean Pact member countries from 13 to 23 October 1982 would be expected to further contribute importantly as a first contact with the Andean Group and that it would be fruitful to organize a reciprocal visit by the Andean Group to ASEAN with the possible assistance from UNDP/UNIDO to coincide with a COIME meeting at a convenient time after both groups have carried out their respective own reappraisals as indicated. The visit should give in-depth attention to select specific areas as mentioned in the last three paragraphs above.

(b) A succinct account of presentations and discussions at the conference

A detailed account of the conference proceedings have been given in the report of the conference and study tour [1/]. Here a summary of the presentation and discussion only of certain main issues or aspects of the respective industrial co-operation activities of the two groupings will be provided, in an effort to reflect the 'lessons of experience' brought out in the very frank and open conference deliberations.

The conference was opened by Dr. Pedro Carmona, member of the Junta del Acuerdo de Cartagena. In his speech Dr. Carmona underlined the importance of the Junta attached to the meetings within the context of south-south co-operation. He felt that these kinds of meetings are very important for the regional groupings. Especially now in a time of crisis, they may help us, he said, to understand each other better. We have to look inwards for our own solutions, and face our problems with our means, and in this context meetings like this become very important for us. We must itensify our efforts towards integration, even with all the problems we now face due to the international economic crisis. We must not only try to improve our relationships with

1/ UNIDO/IS/R.9

the industrialized world, but also with the third world; the knowledge of our common realities may be helpful for both our groups.

After initial statements, the Conference discussions started with a presentation by Mr. Oswaldo Davila, Chief, Programming Department of JUNAC, entitled "Long-term goals of the Cartagena Agreement":

> The Andean Group of the five countries Bolivia, Colombia, Ecuador, Peru, Venezuela represents a area of 4,700 km^2, more than 73,000,000 inhabitants, and an average per capita income for 1981 of $1,139. Its economically active population is around 22 million, with 7 million of them being either underemployed or not employed at all. It has 8 million illiterate people, and 47 per cent of the urban population do not have a sewage system and 75 per cent have no safe drinking water. It lacks 4 million houses, and the nutrition conditions for many are poor. It is projected that at the end of the decade it will have a population close to 100 million, 70 per cent of which will be in urban areas. Further, 30 per cent of the projected population will be economically active (29 million people), which means an annual entry of 780,000 people to the labour market. In 1970, it had a 1.3 million tons of food deficits, which may become four times more by 1980.
>
> In 1980 the Andean Group exported goods worth almost US $30 billion, 90 per cent of which were agricultural or mining products. It has an enormous international debt (close to $49 billion, or roughly 17 per cent of all the international debt). The present economic and financial problem will have great social effects on the Andean Pact countries. The ability or capacity to satisfy the demands of their populations requires a stable and sustained economic development. This provides the basic motive for the signing of the Cartagena Agreement for regional economic integration. To reach the integration goal the Andean Pact has devised the following mechanisms:
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> 1. Trade liberalization programme
> 2. Common external tariffs
> 3. Harmonization and co-ordination of development plans
> 4. Industrial programming
> 5. Agricultural regime on physical integration
> 6. Technological policy
> 7. Financial co-operation
> 8. External relations policies
> 9. Special programme for Bolivia and Ecuador.
>
> The various mechanisms all work in a co-ordinated manner. Those applied so far with more intensity are those concerned with industrial development and trade liberalization.
>
> The trade liberalization programme was started in 1970. It includes all items which are not part of what is called "reserves for industrial programming". Bolivia and Ecuador were excluded until December 1981 as part of the preferential treatment given to them. As a result of liberalization, regional trade has since increased from $90 million to $1,100 million. The items under the common external tariffs now stand at 3,200.

In the field of technological co-operation, progress has also been satisfactory, and efforts are being made to generate the "self-developed" technoloy appropriate for the development needs of the Andean Pact. In particular, achievements in copper technology and the utilization of tropical wood are noticeable.

On the harmonization of policies and development programmes, the Andean Pact has, however, met with many problems. Each country has different economic policies and different internal regimes which make it difficult to co-ordinate, especially since the integration process lacks the dimension to condition national policies. It may be said that the Andean regional economic activity corresponds to only about 5 per cent of all the economic activity in the subregion. The Andean Pact has not yet achieved the harmonization of policies in several areas. This makes negotiation for further integration more difficult, particularly when countries resort to "non-compliance". There has also been a lack of leadership to guide the integration process, which is perhaps a reflection of the inherent weakness of the integration organs themselves. The political, economic and cultural dependence of the Andean Pact countries has also shaped the progress and evolution of the integration.

In view of the present world economic situation, the problems faced by the Andean Pact group will become more difficult to solve. However, the group is determined to push ahead with its objectives and strive to consolidate what it has so far achieved. It may reorient its development efforts towards meeting its social needs, inter alia, within its industrial programming. But what kind of industrialization should it plan for? That is a crucial question.

The second presentation "Economic Policies and Industrialization in the Andean Group in 1970-1980" was made by the UNIDO consultant, Professor Javier Iguiñiz Echeverria:

It is a reality that the impact of the Cartagena Agreement on the countries' policies is still marginal in macroeconomic terms. But when the plant is young and weak the weather is critical in its development; we must look at the climate in which our integration process has been developing.

Of the Andean Group's 70 million inhabitants, only 5 million have an income level similar to that of the industrialized world, 71 per cent of the population live on below subsistance levels.

The industrial production in the five countries has a relatively different importance. It depends on (i) the length of time in which the import-substitution process has been going on and (ii) the peculiarities of the natural resources available in each country. Colombia is the country which has had a coherent industrial policy the longest time. It now gives great importance to its agriculture. Peru pays a lot of attention to its mining resources and Venezuela to its oil.

When assessing the 1970's it is important to look at a given characteristic at the time of the energy price adjustments, namely, the fact that three (Venezuela, Peru and Ecuador) of the five countries were oil-exporters. This fact set the dynamics of these countries on a relatively accelerating process. Furthermore, Colombia saw this acceleration after

1975, when coffee prices went up in the world market. Peru suffered from the depletion of its fisheries resources affecting their export of fish meal. The international crisis affects the countries differently and, therefore, also their industries. Even so, exports grew during the 1970's, e.g. in Ecuador by 11 times, or more than 4 times in Colombia and Venezuela and a bit less than 4 times in Bolivia and Peru.

We may look at the dynamics of the last decade and divide it into two periods, the first from 1970-1975, characterized by a great relative dynamism and the second, 1976-1980, where a slow down on economic growth occurs. During the first period, the increase in the amount of foriegn currency the countries had, made it easier for the state to carry on integration programmes. During the second period when the crisis hit the internal market, a need for the increase of exports of manufactured products cropped up for products which became more and more difficult to sell inside.

The Andean Pact countries have a relatively recent industrial history. It is on an average 20 years since true industrial promotion organs and programmes were instituted. However, during the later part of the 1970s, the policy of the governments left the impression that the State was no longer backing these programmes it had previously supported.

To understand the Andean Pact integration process it is necessary to understand what has happened inside each country, since integration does not yet have a great impact on the countries. We must thus study the countries to see whether or not integration has or has not advanced. Industry has been given a different role in each country. In Colombia - the country with the longest industrial experience - emphasis is given to agriculture while industry sees a reduction of priority. Colombia has critically reviewed its import-substitution programme and puts more emphasis on manufactured goods for export; it also places more emphasis on efficiency than on expansion. Venezuela puts emphasis on basic industry. It has also seen, thanks to the incomes of the oil exports, an enormous expansion of its internal market and feels the need to accelerate the process of import-substitution. It has to resort to imports to satisfy its internal demand. In Peru, industry has played an important role, and the State plays an active role towards basic industry. Government policy in Peru acquires an added rationality and justification in face of the possibility of complementation in this type of industries within the Andean Group. What looks singularly more difficult to justify becomes easier for the State to explain and justify on the basis of an investment in the context of the Andean Group. Ecuador supports actively its industry, but always selectively, with the help of the Andean Group and it does so by orienting it to the regional market. Bolivia does less in this field.

The export promotion mechanisms within the Andean Group have not been the main mechanisms used during the decade as all policies concerned with exports have been subordinate to the general industrial policies whose emphasis lies mainly on import-substitution. It should also be noted that the State has mainly oriented its policies towards basic industry. Countries, depending on their internal needs, accentuate their integration policies on different subjects. Colombia puts emphasis on common external tariffs, Peru on industry, etc. Nevertheless the commercial exchange has been relatively dynamic and the Andean market has taken a growing portion of the manufactures of the region.

Tariff policies, thanks to the existance of the Andean Group, have been modernized and homogenized. Also the institutional field has profited from this. "Decision 24" on the treatment of foreign capital has influenced national policies. The modernization of export promotion policy has been enhanced by the necessity of the countries to integrate. The extended market has justified investments on basic industry and has led to a growing role for the State to get involved on programmes of basic industry.

The two presentations were followed by a lively exchange of questions, answers and clarifications:

One of the Malaysian delegates noted the fundamental difference in the approach to regional economic co-operation between ASEAN and the Andean Pact. Whereas ASEAN is attempting at regional economic co-operation with each member country maintaining a fairly independent course of action as far as its national development is concerned, the Andean Pact has from its start planned for a higher stage regional activities aimed at integrating the development process. Further, the Malaysian delegate was particularly interested in the special programme which the Andean Pact had reserved for Bolivia and Ecuador in the Andean Pact integration programmes. He wondered if these two countries had really received special benefits and at what costs to other members.

In reply, Dr. Iguiniz pointed out that the costs to the Andean Pact countries for affording special considerations to Bolivia and Ecuador had been of little significance, mainly because these two countries are small economies. It was added that the Cartagena Agreement allowed Bolivia and Ecuador a period of 10 years to open up their markets while the common external tariffs have already been in operation in the other Andean Pact countries. The Agreement also reserved products for programming to be produced in these countries. They had, however, not made much use of these special opportunities because of their limited capacities and infra-structural bottlenecks. Hence they had not derived as much benefits out of the special considerations as they should.

One of the participants from UNIDO raised the question of the role of the Andean Pact Secretariat vis-à-vis the national decision making process, especially over the last decade. In the late 1960s when an ambitious integration programme was first conceived, a strong Secretariat was set up to carry out planning and programming of industry; but a strong Secretariat could run into difficulty with national decision-making of some member

countries which at a later time may prefer less planning and control from the regional Secretariat.

Dr. Iguiniz admitted that there had indeed been a change of attitude towards the original concept of integration on the part of some Andean Pact countries, which had created difficulty for the Secretariat. It was added that the major problem for the Secretariat was to balance the conflicting interests of different members in order to reach a consensus over a particular policy issue. So far the problems had not been insurmountable because economically speaking the overall "regional component" was still small so that the individual member countries were not required to surrender much of their autonomy in their national policies.

This led to an interesting comment raised by one of the participants of the Philippines, who distinguished three kinds of regional economic integration schemes: a laissez-faire integration system, a dirigist integration system which blends planning with regulations within a regional framework and a hybrid one, which is fundamentally a laissez-faire system but is modified to include elements of compensation through planning. It was suggested that the Andean Pact belonged to the second category.

In response, Dr. Iguiniz noted that both market and planning were within the integration process, and theoretically integration through market or through planning should be the same, even though in practice there was a bias in favour of market.

One of the Malaysian participants was intrigued by the phrase "non-compliance" and wondered if this concept was provided in the Cartagena Agreement to allow for flexibility in some member countries for delaying implementation of tariff matters.

Dr. Aninat of the Andean Pact Secretariat clarified that the phrase "non-compliance" was not expressed in the Agreement, and that by this phrase it was meant that some precise and clear agreements or compromises had not gone into application. Indeed, the Agreement provides mechanisms to avoid non-compliance. First, some degrees of harmonization of policies must be observed by member countries. Second, the legal arm of the Agreement, the Andean Tribunal of Justice, provides the legal solution to disputes and conflicts. However, the Andean Tribunal has not yet come into force because one of the member countries has not ratified it.

"Joint industrial programming" is one of the salient features of the integration scheme of the Andean Pact, which has attracted wide attention. Dr. Cesar Penaranda, Chief of the Industrial Development Department of JUNAC, made a special presentation on this topic:

> I shall divide the topic into three parts: (1) Joint Industrial Programming; (2) The Sectorial Programmes of Industrial Development and (3) The actual status of the Joint Industrial Programming, covering three existing programmes.
>
> The individual markets of the Andean Countries are small due to the low levels of incomes and this has created an obstacle for a more dynamic process of industrialization. The problem is made more critical by the uneven distribution of incomes in these countries. Hence the motive behind our drive towards integration. LAFTA was born this way, but it was afflicted with incongruencies due to disparity in the development between countries like Mexico, Argentina and Brazil on the one side and the rest of the countries on the other side. The Cartagena Agreement, on the other hand, was established with the difference of development of the countries bound by the Agreement clearly taken into account.
>
> The Agreement was essentially an industrial one; it uses two types of mechanisms in its search for a more dynamic industrialization process for the Andean Pact region, (a) the market mechanism and (b) the establishment of common external tariffs. With these we were trying to make better use of the already existing industries and to promote intra-Andean trade in manufactured products. We, thereafter, set up another mechanism which was the Joint Industrial Programming (JIP), which would allow countries to achieve an important industrial level and the maximum industrial efficiency, directing the allocation of resources in the best possible way. The JIP, was given two instruments to achieve its aims, firstly, the Sectorial Programmes of Industrial Development and, secondly, the Programmes for Industrial Rationalization.
>
> The Sectorial Programmes of Industrial Development are designed (a) to distribute new projects equally between the countries and (b) to improve and increase the already existing capacities. For (a), as a start we do not consider the local markets, but concentrate mainly on giving the five countries investment opportunities. The decision to invest would depend on other elements, like the efforts a given Government puts forward for turning this opportunity into a reality, the availability of resources and the profitability of the project. To arrive at this distribution we resort to sectorial programmes for industrial development. This allocation of equal opportunities has the disadvantage that the benefits will also be sectorially distributed, distorting somehow a better theoretical approach of this distribution under a more global scheme.
>
> We have allocated investment opportunities to the countries whenever their own opportunities to do it were manifested; but then we would face the problem of not being able to see how benefits were being evenly distributed within the area, since it is easy to see that investment opportunities would present themselves easier in those countries with

a more developed infrastructure or with a greater capacity to work out more developed projects. Nevertheless, this could have also been a possibility. On the other hand, another possibility was to focus sectorial programming on a one-programme basis which would have involved all the industrial sectors reserved for programming, trying to rest mainly on comparative advantage. This scheme may have carried us to a better allocation of resources but it did not allow all countries to participate in several industries for which they had manifested their interest and it also created a planning and statistical problem because of the complexities involved. The Agreement opted for a sectorial approach and about 1/3 of the tariffs universe was reserved for this programming. We reserved the most dynamic and important industries and those which, on the Andean level, either were non-existent or had very little development.

The Sectorial Programme is a permanent mechanism on a time basis and it is quite broad on its field of application. Our priorities were those for which we had deadlines to meet; but we may any time programme other activities.

There is a basic common structure for the three already approved sectorial programmes, namely allocation of investment opportunities for each of the member countries.

The mechanisms which make up the essence of each sectorial programme are as follows:

(A) The liberalization programme for programmed products (the Bolivian and the Ecuador markets are liberalized later than the other markets);

(B) Common external tariffs, intended to maintain certain preference margins for subregional production confronted with competition from third countries and to regulate the productive efficiency of the sector;

(C) Supplementary measures in several forms, for example, countries agree not to encourage or to expand production of products corresponding to allocations granted to the other member countries, and countries should not authorize foreign investment for such production either.

It must be noted that any country may import from third countries the same products as those manufactured within the region, but always paying the established common external tariffs. This means that we are establishing competition within the region as well as with third countries.

At the time of the signing of the Cartagena Agreements, member countries had an industrial infrastructure with marked differences. At the opening of markets to a given industry, the market would be submitted to intra and external competition because of the common external tariffs. Certain industries such as textiles, leather goods, shoes, etc, were very important in that they absorbed more labour than others and were developed to a higher or lower degree. The opening of markets

might have affected the integration process. Therefore the rationalization programme for industrialization was established in order to diminish the effects caused by this new competition and to increase efficiency at the same time. We work on a hybrid theory of both production for the substitution of imports and promotion of manufactured exports. The application of the rationalization programme had to be in agreement also with the other integration mechanisms. The Agreement provides for at least one rationalization programme per year. So far, however, no rationalization programme has been implemented, since greater importance was given to sectorial progammes.

I will refer now to the already approved sectorial programmes. The first is the automotive one. It tries to limit the models and brands of vehicles within the Andean Group, with the purpose of increasing production volumes and to increase the production of spare parts of the vehicles. It has to be noticed that the main purpose of the programme is to produce spare parts. This programme is backed by a liberalization programme and common external tariffs (for commercial vehicles, an average of 48 per cent; for cars, an average of 135 per cent; and for spare parts, an average of 49 per cent). As complementary elements to investment opportunities three types of agreements were established in this programme: (a) Assembly agreements, were any country may assemble any type of vehicle assigned to other Andean countries, as long as it integrates the spare parts received by the country which previously had the allocation of production; (b) Agreement on co-production, where we seek to specialize in order that one country may produce one or more components and another country one or more other components, in order to achieve better scale-economies; (c) Agreement on complementation, where we look for countries to specialize on parts of a given component of a vehicle. All these are essential elements of this programme. The co-ordination and implementation of the programme have proved very difficult now, due to the events affecting this industry internatioally as a result of global recession and the energy crisis.

The second programme is the metal fabrication programme of 1972. This programme was subsequently adjusted due to the withdrawal of Chile and the joining of Venezuela. We approved Decision 146, which is essentially a programme on capital goods. This programme establishes exclusive allocations for Ecuador and Bolivia (so far 33 are exclusive and 43 partial alloactions). We also established market openings, with differences for countries and for products. The common external tariffs range from 20-80 per cent with an average of 51 per cent. The programme also fosters the idea of co-production, looking for a greater specialization which has not been as intense as expected. The programme has been distributed to all countries due to their interest to participate in it.

The third programme is the petrochemical programme. This is a vertically integrated programme for it covers raw materials over to intermediate products and final products. It was approved at the time of the world oil price adjustment, when the situation was very competitive. It was also programmed for exports, with 60 per cent for the Andean market. Tariffs were low (20-35 per cent), and allocations were to be made rapidly with differences on market openings for countries. Then we faced an excess of supply internationally, and the fact that this industry is very capital intensive. Also, we have now to face

the fact that several Andean countries have not developed as projected with respect to their oil resources. Some - Colombia and Bolivia - have even turned into oil importers; and Peru, although exporting oil products, does so not at the level as previously projected when the programme was negotiated. We are therefore revising this programme at the Andean Group.

As far as iron and steel is concerned I would like to mention that there is no such thing as a programme. There exists so far only an agreement to arrive at a programme as soon as possible. We have a more critical problem here since this industry is partly providing raw material to other industries, such as the automotive or the metal fabrication ones, and any added costs to develop it on Andean level would be of great importance for the prospective users. Tariffs are also very important; as are transport costs.

I would like to say that the implementation of sectorial programmes has problems in three of its mechanisms, namely (a) in the allocation of investment opportunities; (b) in the abstention from allocating opportunities to another country if there was such investment already; and (c) tariffs.

When we talk about allocation, we do not talk about obligations as to whether to take or to realize the project. All allocations specify a period of time within which they must be realized, and they have a market-reserve, so that once products come out the producer has at his disposal the market - vis-à-vis producers from third countries.

In all the three programmes we have several allocations that were not carried out, but there are realization and new investments also, which emerged thanks to the allocations.

There are several reasons for non-compliance with the allocation, both external and internal reasons. The host country has its own problems, such as over-estimation of capacity. At the beginning the countries were looking for maximum participation in order to derive greater benefits. Then countries were looking for more investment opportunities, which affected the allocation of resources and diminished efficiency. There is also non-compliance by other countries: non-application of tariffs, non-opening of markets, and problems due to the competition of third producers.

Of 76 units assigned to metal fabrication, 50 are already in production, with 153 companies participating in their production. In petrochemicals, of 50 units assigned, 20 are producing, with 108 companies participating. On the liberalization programme, we have advanced with significant achievement, since the trade it has generated is very important. Following figures show how it has affected commercial exchange. In metal fabrication intra-Andean trade in 1972 was less than $2 million, and in 1980 it had increased to $25 million. In petrochemicals, from the trade level of $10 million in 1976 we increased to $50 million in 1980.

With regard to the common external tariffs, there are more problems. There are still important differences in what the countries are willing to pay for their industrial development in general and for sectorial programming in particular. There are several cases of non-

compliance and thus there is market instability, with no clear parameters to allow the countries to decide on investments. All this affects the development of the programmes which are scale-economy intensive and which require high production levels. Forecasted markets have not been found and there has been more competition from third countries than previously expected. All this has created problems in regard to the use of the installed capacity of industries protected by the approved programmes.

There are two important elements which we must consider now, namely, (a) the international situation, since the Andean Group can not isolate itself. Owing to global recession the more developed countries are more aggressive in respect of their investments in the third world; and (b) the internal national situations, which require short-term actions. Thus we must strive collectively to work out more efficiency in resource allocation and a more homogeneous treatment of countries and industries.

The presentation of industrial programming in the Andean Pact had raised intense interest from the ASEAN participants and a lively discussion followed.

One of the participants of the Philippines asked about the role of the private sector in the selection of the products to be promoted in various programmes and how it was involved in the implementation process. Dr. Penaranda pointed out, in reply, that in the Andean Pact the private sector had different conceptions of the execution of the sectorial programmes. It differed from country to country depending on the private sector's organization and on the government's readiness to let them participate in the types of industry. In the petrochemical sector, for instance, the high capital investment required presupposed the major role to be played by the public sector rather than by the private sector.

The Singapore participant was interested in the actual production levels of the metal fabrication and petrochemical sectors as opposed to their "anticipated installed capacities". Dr. Penaranda replied that the designated projects were not based on feasibility studies but they instead relied on international information. Consequently, they had no precise information on anticipated production levels and costs.

The presentation on ASEAN was made by the ASEAN/COIME spokesman, Mr. N. Sadasivan of Malaysia, who highlighted the long-term goals of the economic co-operation of ASEAN and the process of industrial co-operation in ASEAN:

In my presentation I will touch upon some of the major areas of economic co-operation in ASEAN, while focusing specially on areas affecting industrial co-operation. We would then like to spend a little bit more time discussing some common problems and some common experiences that both regional groupings have obtained through these years at efforts to co-operate on a regional basis.

ASEAN, founded in 1967, comprises the countries of Indonesia, Malaysia, Philippines, Singapore and Thailand with a combined population of some 250 million people, thus about 3 times more than the population of the Andean Pact countries. For the first 8-9 years in ASEAN's history, very little efforts were made to achieve any degree of economic co-operation, simply because both the leaders of ASEAN and the peoples in ASEAN were in the process of trying to understand one another, and trying to understand the different cultures, the different languages, and the different religions in ASEAN. And, therefore, our progress in these initial years was very slow. In 1976, almost 10 years after ASEAN was formed, the Heads of Government of the five ASEAN nations gathered together for a first Summit Meeting in Bali, Indonesia. At this meeting, the five Heads of Governments signed a Treaty of Emnity and Co-operation in Southeast Asia and, much more important, they signed the Declaration of ASEAN Concord. By this action, they renewed the governments' commitments to the aims and purpose for the organization of ASEAN set out in 1967. The Declaration of ASEAN Concord signaled a fresh impetus for economic co-operation in ASEAN. The Declaration of ASEAN Concord, together with the Treaty reconfirmed economic co-operation as one of the pricipal goals of ASEAN. It calls for foundamental approach towards the achievement of peace, stability and prosperity in the ASEAN region. These two important documents also provided the basis for the formulation and implementation of future work programmes and the establishment of a suitable institutional machinery for economic co-operation in ASEAN. From 1976 onwards various programmes of co-operation in broad economic sectors were formulated. Some of these programmes have already come into effect, and these programmes now guide both the short- and medium-term direction for economic co-operation in ASEAN.

Major areas of co-operation in some of the more important economic sectors in ASEAN are the following. In the field of trade, ASEANs' aim is to promote the development and growth of new production and trade and to improve the trade structures, both for the individual member states and among the ASEAN countries as a whole, so as to further development and to safeguard and increase foreign exchange earnings and reserves. Another important objective is to expand trade of the member states by improving access to export markets outside of ASEAN for the raw materials and finished products produced by ASEAN. In 1977, the ASEAN countries signed an agreement on ASEAN Preferential Trading Arrangements which had its main objective to expand intra-regional trade. Under this agreement trade would be expanded through a number of measures in ASEAN. The first would be long-term quantity contracts, ranging from 3-5 years and applying mainly to basic commodities, such as rice and crude oil. Other arrangements include preferences in procurement by government entities, extension of tariff preferences and liberalization of non-tariff measures on a preferential basis. As of today, the extension of tariff preferences is the most advanced of these measures taken to liberalize trade amongst ASEAN countries. As of June 1982, a total

of 8,529 items of interest to ASEAN member countries have been given various degrees of tariff preferences with the margin of preference of 20-25 per cent from an initial tariff cut of 10 per cent. We are also undertaking measures to expand the coverage of items for which tariff preferences are being exchanged through a sectorial approach as apposed to the product by product approach in the earlier years. We have also planned to deepen tariff cuts beyond the current 20-25 per cent.

In the field of industry which is the area that those of us present from ASEAN are most actively involved in, a number of programmes are being currently pursued. These are expected to contribute towards increasing the flow of investment in the ASEAN countries, to a strengthening and broadening of the base of the industrial sector in the respective economies and to promotion of greater utilization of the industrial capacity and trade. Three major programmes are currently being undertaken. These are the ASEAN Industrial Projects, the ASEAN Industrial Complementation programmes and ASEAN Industrial Joint Ventures. The ASEAN Industrial Projects are basically large-scale government undertakings geared, in particular, to meet regional requirements for essential products. Priority is given to projects that utilize available resources in the member states, contribute to the increase in food production, increase or save on foreign exchange earnings, and create employment opportunities. The ownership of an ASEAN Industrial Project is distributed on the basis of 60 per cent for the country in which the project is located, with the other four countries taking the remaining 40 per cent equity ownership. While these projects are primarily government-owned projects, the ASEAN private sector and the non-ASEAN private sector may own up to 2/3 of equity allocated to a particular member country. The only reservation is that at any one time, majority ownership of an ASEAN Industrial Project must be held by ASEAN nationals. To encourage and to facilitate the establishment of ASEAN Industrial Projects, the ASEAN Governments signed a basic agreement on ASEAN Industrial Projects in 1980. Today four ASEAN Industrial Projects have been approved. There are two ASEAN urea projects for Indonesia and Malaysia, a rock salt/soda ash project for Thailand and the copper fabrication project for the Philippines. A fifth project for Singapore is currently under examination. In addition to these large-scale industrial projects which are basically government-owned and government managed, the ASEAN Industrial Complementation programmes were launched in June 1981, again with the signing of the basic agreement on ASEAN Industrial Complementation. Under this agreement the ASEAN member countries have undertaken complementary trade exchanges of specific processed or manufactured products or components within an ASEAN Industrial Complementation package. Products that form and fall within such package are entitled, among others, to tariff preferences under the ASEAN Preferential Trading Arrangements as well as exclusivity status for periods of 2-3 years. ASEAN member countries also grant such products additional non-tariff preferences, such as mandatory purchasing of one product by another country and, in some cases, accreditation of local content status for such products. In the first ASEAN Industrial Complementation package comprised existing automotive components and this first package was approved for implementation in June 1981. Products in the first package would enjoy a 50 per cent reduction in existing tariffs within ASEAN. We are currently examining the possibility of implementing other complementation packages.

At this stage, I think I would want to touch upon the role of the private sector in ASEAN which would seem to be somewhat different from the private sector's role in the Andean Pact countries. In ASEAN the private sector, in particular the private sector in the trade and industry, is usually active and maintains very close contact with the five ASEAN Governments. In fact the initiative for economic co-operation in industry is very often the result of private sector efforts; and to facilitate this close contact and exchange of views between ASEAN governments and the private sector, the private sectors in the ASEAN countries have organized themselves in a number of ASEAN Regional Clubs. For example, all the manufacturers of rubber products in ASEAN have organized themselves into a ASEAN Rubber Manufacturers Association which has in each of the five ASEAN countries a National Association of Rubber Manufacturers. This ASEAN Regional Industry Club maintains a continuous exchange of views with ASEAN governments on how to promote greater exchange of products within ASEAN. There are in total about 20 ASEAN Regional Industry Clubs, all of which maintain very close links with the governments.

It is in recognition of the very important role that the private sector would play in ASEAN economic co-operation that the ASEAN governments now are in the process of finalizing a scheme which would enable the private sector to play a very active role in industrial co-operation in ASEAN. This refers to the proposal for the establishment of ASEAN Industrial Joint Ventures. The ASEAN Industrial Joint Ventures are basically the private sector counterpart of ASEAN Industrial Projects. Unlike the ASEAN Industrial Projects where government involvement is major, the ASEAN Industrial Joint Venture scheme is designed almost exclusively for private sector participation. This scheme would enable the private sector in ASEAN to establish large-scale industrial projects and enjoy substantial ASEAN preferences, particularly for the exchange of commodities produced by such large-scale projects. We expect the final agreement on the scheme for the establishment of ASEAN Industrial Joint Ventures will be obtained shortly. The ASEAN governments' role in establishment of ASEAN Industrial Joint Ventures would be confined, intially, to the granting of substantial tariff preferences, for the products of ASEAN joint ventures. Governments themselves would not be involved in either the equity of the projects or in providing any other form of financial support.

Turning now to ASEAN's long-term perspective, it is almost 10 years since ASEAN began to be really active in its economic co-operation efforts and to implement various programmes to achieve the goals set. We are now in the process of something very similar to what we heard yesterday from you. We are in the process of reviewing the various measures we have taken in ASEAN to achieve economic co-operation. We are reviewing principally with the objective to see whether the institutional and legal framework under which these measures have been taken is adequate for the next decade to come. We are also under considerable pressure from the private sector in ASEAN, that the governments are not working fast enough to promote greater co-operation and there are number of policy measures that are currently being examined in ASEAN. The private sector, some time at the beginning of this year, proposed that ASEAN governments should enter into a very comprehensive economic treaty providing for various levels of co-operation in ASEAN. The private sector, in fact, cited your own experience in the Andean Pact

countries as an example and stressed the need for ASEAN countries to draw up an economic treaty amongst themselves. This is something that the governments in ASEAN are currently examining. Our own experience, I think, indicates that an economic treaty (unless it provides so much flexibility that the treaty is not really very effective) would not give the countries in our region sufficient flexibility to operate their own national policies. But the ASEAN governments are now studying the matter very carefully to see whether the conclusion of an economic treaty would lead to greater economic co-operation. Proposals have also been made by the ASEAN private sector, and by some governments in ASEAN that ASEAN should ultimately become a free trade area. This again is an another area that the ASEAN governments are now studying very carefully.

In summary, I would conclude by saying that the efforts towards economic co-operation in ASEAN have taken many forms and shapes, some of which have succeeded beyond our expectations, while a number of other measures had to be dropped as a result of our experience gained during intra-ASEAN meetings. Of overriding importance is that ASEAN is committed over a long-term to achieving a greater degree of economic co-operation amongst the member countries. As to what form this ultimate degree of co-operation will take we are not sure of yet. We are in the process, as I said, of examining a number of proposals, and we certainly would think that the experience of Andean Pact countries would be of very significant value to us.

In the ensuing lively discussion a number of different aspects were taken up. Thus one of the participants of Peru focused attention on the treatment of foreign capital in ASEAN and asked about the possibility of a "Multinational ASEAN Corporation". In reply, Mr. Sadasivan pointed out that in all the ASEAN countries considerable government efforts were made to attract private foreign investment, particularly in the manufacturing sector. Private foreign investment could be intra-ASEAN investment. Among the ASEAN countries, the degree of welcome afforded to foreign investment differed according to the policies of individual ASEAN countries. In the case of Singapore, which is the smallest country in ASEAN, no restrictions in any major form were placed on attracting foreign investment from any part of the world. In the case of Indonesia, which has a very large domestic market, a more selective approach was used in attracting foreign investment. Specifically, the ASEAN Industrial Joint Venture projects were a kind of scheme which would promote intra-ASEAN investment.

In response to other queries the Philippine participants attempted to explain the institutional set-up of ASEAN to the participants from the Andean Pact, highlighting the various permanent committees in the ASEAN Secretariat and the role of ministers' meetings. It was emphasized that ASEAN did not have a "super-JUNTA" like the one that the Andean Pact had in Lima. The

ASEAN Secretariat is much simpler in organization. The major work, as far as industry is concerned, is done at the COIME level. Regional projects in ASEAN often involved a long, drawn-out process of negotiations before final approval was granted. Accordingly, the ASEAN private sector was sometimes very impatient and critical of the slow progress made by the ASEAN governments towards regional co-operation. It was also emphasized by the ASEAN delegates that although there was a lot of political good-will in ASEAN towards closer economic integration, they did not foresee any emergence of an "ASEAN Parliament", except in the very long run. At the same time all the ASEAN governments are clearly committed to work for a high level of co-operation.

The Andean Pact participants showed keen interest in the "extra-regional" co-operation of ASEAN, particularly ASEAN's various "dialogues" such as the ASEAN-USA, ASEAN-EEC, ASEAN-Japan, ASEAN-Australia, ASEAN-New Zealand and ASEAN-UNDP Dialogues. These dialogues were held frequently whenever common problems cropped up, e.g. the recent ASEAN-USA Dialogue was convened to discuss the US stock pile of tin. The successful holding of these dialogues had clearly demonstrated the advantage of regional co-operation in the sense of having formed a common stand vis-à-vis other countries. The civil aviation dispute between Singapore and Australian was quoted as an example to show how a collective effort on the part of ASEAN had brought about a solution favourable to both Singapore and ASEAN as a whole. It was also noted that the high leverage ASEAN had in dealing with other powers was in part due to the fact that ASEAN was one of the fastest growing regions in the world and this increased the bargaining power of ASEAN.

In particular, Mr. Sadasivan brought out the element of flexibility in the ASEAN system of co-operation which seemed to be lacking in the integration process of the Andean Pact. For instance, two or three member countries in ASEAN could work out schemes for industrial co-operation, even though the formal co-operation machinery, such as getting tariff preferences approved, was often rather time-consuming. On the other hand, there was no question of "non-compliance" in ASEAN once the ASEAN ministers had decided on the matter, say, the level of tariff reduction.

In response to a request by the ASEAN participants a presentation was given by Dr. Antonio Kuljevan of the Legal Department of JUNAC on the subject of JUNAC Decision 24 regarding treatment of foreign capital, and Decision 169 on the Multinational Andean Company.

The Cartagena Agreement's regime, Decision 24, concerning foreign investment covers a broad spectrum and is based on the concept of policy harmonization. It has two fundamental principles: (a) recognition of the Andean Group's need of foreign capital and foreign technology in line of the priorities of the Group's development; (b) creation of a stable regime which would give security to foreign investors on obligations and rights. The regime may not be modified by one or two countries, but only by the agreement of the Andean Commission.

All foreign investment must be subject to the authority of the competent national organ. Foreign investment must be registered (in convertible currency) in order for the investor to have rights: (a) to repatriate invested capital should the investor sell his shares to national investors or on the company's liquidation. The case of a capital reduction is not dealt with in the Agreement, but these cases are usually solved on a national basis; (b) to repatriate profits obtained. There is a limit to this, which used to be 14 per cent of the direct foreign investment. In 1975 Chile proposed a modification of this percentage. This was agreed to in 1976 through Decision 103, bringing the percentage to 20 per cent and also giving the countries the capacity to authorize an excess of over 20 per cent whenever countries considered it convenient, with the only obligation to communicate it to the Commission. So far the Commission has not received any such communication. There are, however, several companies which are free from these limitations, namely, companies which export more than 80 per cent of their production to third countries.

For the common regime there exists three kinds of companies (a) foreign companies (those ones with less than 51 per cent capital in national hands); (b) mixed companies (those ones with 51-80 per cent capital in national hands); and (c) national companies (with more than 80 per cent national capital). Andean capital is treated as national capital. There is a regime on the transformation of foreign companies covering two cases: (a) those companies already existing at the time the regime becomes valid, and which are to be transformed only if they want to enjoy the advantages of the liberalization programme; (b) new companies which are all obliged to transform within a given period of time: 15 years for companies in Colombia, Peru or Venezuela and 20 years for companies in Boliva and Ecuador.

There exists, since 1971, an Andean system of technological information, for the exchange of information about foreign capital and foreign investment.

In 1971 we also adopted a regime on the Multinational Andean Company (Decision 46), which did not became valid until 1976 when the countries finally complied with the requirements of their national law system. So far no company has been formed under Decision 46, mainly because one of the requisites is that its social goal be based on Andean programming and also because of the enormous bureaucracy involved. Therefore, we thought about creating a new regime, at which we arrived in March 1982, with Decision 169, which does not, however, supersede Decision 46. We may, therefore, guide ourseleves by the contents of either Decision 46 or 169. The site of a newly created Multinational Andean Company must be in one of the Andean countries, and the intra-Andean investment must be at least 80 per cent, leaving a maximum of 20 per cent for foreign investment. There must be investors at least

from two member countries and the 80 per cent Andean investment must be reflected in the company's management. By Decision 169 the Commission intends to intensify the capital circulation in the Andean countries.

The Multinational Andean Company must be constituted in one of the Andean countries in the form of a joint-stock company. Its equity capital must be in personal shares, since transferable shares are not allowed in these countries because of Decision 24. This must be so in order to be able to control the compliance of the common regime and of the requirements of the Multinational Andean Company.

With the new company (under Decision 169) much of previous bureaucracy is avoided and it is constituted by only submitting the procedures to the national organ of the country where the company will have its headquarters. The company's administration is legally under the jurisdiction of the country where its headquarters is located. Such Multinational Andean Company, which is one of the five types of companies which so far may exist within the jurisdiction of the Cartagena Agreement, is given a special treatment and its products also enjoy the benefits of the Cartagena Agreement. It also gets a special tax and credit treatment, similar to the treatment which national companies in the same economic activity enjoy. What makes it particularly interesting for foreign investment is the fact that there are no limitations to the annual profit repatriation. It has no such limits as is the case of Decision 24.

Another advantage for a Multinational Andean Company is that any investment made by the company in any of the Andean countries will be considered as national investment. Finally, it should be noted that the flexibility provided due to Decision 169 will become effective whenever two countries have it integrated to their respective legal system and have it deposited with the JUNTA's Secretariat. So far Decision 169 is legally effective in Bolivia and Peru.

Dr. Kuljevan's presentation prompted a remark from the ASEAN side that the attempts at regional integration in the Andean Group seemed to have come from the top, whereas in ASEAN it was from the bottom. By comparison, the degree of consensus in ASEAN often turned out to be greater, simply because by the time a co-operation programme had reached the top everybody had agreed. Once ASEAN had made a decision, albeit after a long process, everbody would comply with it as all the arguments had been heard at the lower level and disagreements taken care of.

Dr. Penaranda further commented by seeking to clarify the basic difference between regional economic co-operation and integration. In retrospect, the Cartagena Agreement had ambitiously sought to achieve an economic integration process. But it was never meant for short or even medium term; and the objective was to be reached in a long-term process. The ultimate step towards full integration was clear in the Agreement. At this stage, however, it was difficult for the Andean Pact to talk about

whether it was immersed in forming a free trade area or a customs union or a common market because there were overlappings. The Agreement was clear in respect of the steps and action countries must follow and in the required harmonization of policies.

From the side of JUNAC the difference was also stressed between LAFTA and the Andean Pact in terms of ensuring an equitable distribution of integration benefits especially for the less developed member countries. Unlike LAFTA, the Andean Pact from the outset created a system which could benefit the less developed members. However, there was a difference between allocating benefits to a country and whether that country had in fact really stood to gain from the allocation. It would not be enough just to design a project to benefit a country, but a lot would depend on if the country was sufficiently developed to generate the necessary absorption capacity. The experience with Ecuador and Bolivia had showed that they had not reached the required development level that would enable rapid implementation of a wide variety of regional projects specially designed to benefit them.

The aim of the Andean Pact, it was noted, is now to create a viable internal industrial structure that would include not just, for instance, capital goods industries but also activities which would increase and multiply the subregion's overall industrial capacity. This new approach would bring about a wide range of benefits while at the same time make the best use of the natural resources of the subregion, and help to generate a technological capability which would produce a genuine internal economic development with less dependence upon foreign economies.

The sectorial programmes for industrial development in the Andean Pact attracted keen interest from the ASEAN participants, who were particularly eager to learn how JUNAC initiated and implemented the SIDP for the automotive and petrochemical industries. The industrial programming was the major form of industrial co-operation in the Andean Pact.

On a question of the industrial rationalization programme, Dr. Penaranda pointed out that the Andean Commission only provided certain tools and instruments for the individual Andean Pact countries to identify and define the sectors or industries for the purpose of industrial rationalization. It was up to the individual governments and the private sector to work out the detailed implementation. The willingness of the private sector to rationalize

was therefore crucial for success. Dr. Aninant added that the Cartagena Agreement contained both mandatory and non-mandatory instruments; but their operation often depended on the international organization of the member governments.

One of the delegates of Thailand touched on the level of private sector participation in regional co-operation. He pointed out that in ASEAN the private sector had been closely involved in recent years as regional co-operation gathered momentum, and its involvement was operated through the various regional industry clubs as well as the ASEAN-CCI.

In the Andean Pact, it was noted, the private sector was also getting more actively involved in regional integration during the last few years, as reflected in the recent formation of the Andean Corporation of Industrialists (Coandina), and a few contact groups organized within the automotive industry after the start of the sectorial programmes.

One of the participants of Colombia drew attention to the impact of external economic forces on the process of integration. The decisions to go ahead with many industrial programmes, which had appeared very rational at the time of the oil boom, were now seriously affected by high interest rates and the world recession as well as the mounting indebtedness of some member countries. He predicted that it would become increasingly more difficult to programme large-scale regional industrial activities in view of the uncertain future. Focus should be placed more on small-scale programmes involving a shorter time horizon. Dr. Penaranda added that the circumstances underlying the 1960s and the 1970s had now changed, and that it might be more realistic for the Andean Pact to shift emphasis to agricultural development for the 1980s.

In concluding discussions Dr. Penaranda indicated three areas for possible co-operation between the Andean Pact and ASEAN in future. First, both groups should co-ordinate positions and statements before international forums. Second, both sides should try to expand commercial exchange. Third, both should work out specific mechanisms for future co-operation such as methodology, information exchange, etc. The Andean Pact had a great deal of experience with its sectorial programming and would be prepared to transmit to ASEAN such experience through future meetings, seminars and other means.

The proposals by Dr. Penaranda were generally endorsed by the ASEAN participants who also pointed out that with the exception of joint action in international forums, which normally requires official "dialogues", such as the ASEAN-USA Dialogue, other areas of closer co-operation between the two groupings would be of mutual interest to both. It was urged that the Andean Pact delegates should make a return visit to ASEAN.

From ASEAN side it was specifically expressed that the information on the methodologies or techniques in respect of industrial programming from the Andean Pact should be of great interest to ASEAN. The methodology employed by the Andean Pact in evaluating the effect on intra-Andean Pact trade by liberalization would also be very useful for ASEAN in assessing its own trade liberalization programme.

The concluding session for the Conference was held in the morning of 14 October 1982, in which a brief summary report was adopted.

> In a concluding statement Mr. Sadasivan of Malaysia on behalf of ASEAN noted that the real objective of the ASEAN visit was to see whether there was anything in the Andean Pact experience that could be useful for ASEAN. This objective the meeting has fulfiled, and we have also learnt about your own difficulties at integration. We have learnt some of the complex plans which you had to amend because they were very ambitious to start with. We would try to avoid those mistakes in our own efforts in ASEAN. ASEAN collectively is also very interested in establishing long-term relationships with other regional groupings. As to what form this would take, I think, it may be a bit early for us to say now. But certainly this was a very useful initial contact we have had with the Andean Pact and we are going to have subsequent contacts with you. We certainly hope UNIDO and UNDP are listening very carefully to our proposal that you visit us next time - next year perhaps. I believe contacts of this type would result in establishing between the Andean Group and the ASEAN countries some sort of long-term relationship. We are particularly interested in technical co-operation, as was mentioned. At this point of time we do not know what areas are suitable for technical co-operation, but we might have a better idea after we complete the visit to all the countries in the region. Finally, may I on behalf of colleagues again express our very sincere appreciation to the JUNAC secretariat for giving us this opportunity to see for ourselves and to hear of your experiences and difficulties. We think this has been specially useful, because, as I mentioned yesterday, we are also looking in ASEAN now at ways to intensify our economic co-operation efforts, and this particular meeting and the visits to the Andean Pact countries are really interesting to us and useful to us. I would also take this opportunity to thank again very much for the assistance of UNDP and UNIDO.

After the Conference a study tour was organized for the ASEAN delegates to visit the member countries of the Andean Pact. The tour was most informative and useful for the ASEAN participants in terms of enabling them to

acquire some fundamental knowledge on the workings of the Andean Group co-operation. It provided further opportunity for the ASEAN participants to discuss and exchange views with the officials in the respective Andean Pact countries directly engaged in the integration work, as well as with the industrialists in these countries actively involved in the various regional industrial programmes of the Andean Pact. The discussions were without exception characterized by great frankness and openness, with the ASEAN participants being provided with the most valuable information on areas of progress and of difficulties. The ASEAN participants often reacted by pointing out parallel experiences in ASEAN. Hence most fruitful exchange of opinions and experiences took place. Specifically may be mentioned the very valuable and enlightening discussions held at the Andean Development Corporation (CAF) in Caracas.

Chapter V

PROSPECTIVE ANALYSIS

(a) Obstacles to regional co-operation efforts in the Third World

The background review of the regional economic co-operation efforts in ASEAN and the Andean Pact, and the discussions and exchanges which took place at the ASEAN/Andean Pact Conference on Regional Industrial Co-operation in Lima, have brought out the progress so far achieved respectively by ASEAN and the Andean Pact as well as the major problems and obstacles each has encountered. In all overall evaluation, it would seem that these two regional groupings have created as many problems as they have resolved. There is also an impression that what they have failed to achieve often tends to overshadow what they have already achieved.

Thus, in the case of ASEAN, there is certainly a long way to go before it can be considered an effective, integrated economic grouping; its very considerable achievements hitherto in the field of economic and industrial co-operation having mainly been those of establishing a wide network of close contacts - at officials level as well as private industry level - and of building up frameworks for collaboration. ASEAN's achievements to date in real regional economic co-operation on the other hand have been uneven and at best moderate. Its trade liberalization programmes, lacking in both breath and depth, are still ineffective in terms of restructuring ASEAN's trade pattern towards a greater regional orientation. Years of hard negotiations have only proposed a low margin of tariff preferences for just over 8,000 commodity items and most of these items still lack significant trade contents. The volume of intra-regional trade created by the trade liberalization scheme still amounts to a tiny portion of the total intra-regional trade. Progress in the field of industrial co-operation is equally limited. The ASEAN Industrial Projects (AIP) programme has failed to take off as a "package", and only two of the original five projects are nearing completion. As for the ASEAN Industrial Complementation (AIC) scheme, much activity and consultation has taken place but none of the programmes have made a delivery yet.

The Andean Pact seems to fare somewhat better by comparison as it can point proudly to a number of areas or projects as evidence of concrete achievements. But this should not obscure the fact that the overall integration

process of the Andean Pact, which started off with such great promises and good purposes, has been slowing down in recent years, with some programmes having lost their original momentum. More and more, political and economic constraints have surfaced as the Andean Pact integration proceeds. There are new politico-economic problems associated with changes of governments in the member countries, and there are structural rigidities in the economies of some member countries arising from the world recession. All these new problems have presented a great challenge to the Andean Pact's integration efforts.

Since the Andean Pact and ASEAN groupings have often been singled out as successful regional integration/co-operation experiments in the Third World, their sluggish progress towards the various objectives and targets has prompted many sceptical observers to express serious misgivings as to whether there is a real future for concrete co-operation efforts in the developing countries, given their enormous political and economic constraints. They tend to view such regional groups as mainly political arrangements, with the links among them being essentially one of convenience. ASEAN is often cited as the case in point, as the political clout of ASEAN tends to dwarf its efforts towards economic co-operation. To these observers, regional groupings in the Third World have only limited potentials for real regional economic integration. Is such a pessimistic view warranted?

To begin with, it should be pointed out that there are considerable fallacies in assessing the success and failure of regional co-operation efforts in the Third World on the basis of conventional criteria as well as by comparing one regional grouping with another. Lack of conspicuous success so far in the various ASEAN co-operation programmes or in some integration schemes of the Andean Pact does not mean that they are not working or have altogether failed to work. Furthermore, it is certainly not possible to pass a proper judgement on the present rate of progress towards economic integration in either ASEAN or the Andean Pact without taking into account their respective time frames. Both regions have categorically stressed that economic co-operation/integration is their long-term goal, and fluctuations of events in the short run provide a poor basis for evaluating against long-term objectives. Obviously, had the member governments been more willing to subordinate their national interests to regional interests, ASEAN and the Andean Pact would have advanced towards real economic integration at a more impressive pace. But there were

institutional constraints and structural problems which cropped up as "exogenous shocks" to the integration process, and any fair assessment of the individual programmes or policies should take these extenuating circumstances into due consideration.

If one were to judge the achievements of the two regions by the same criteria as would be used, for instance, for the European Economic Community (EEC), the two regions have achieved preciously little in terms of real progress towards integration. But as pointed out at the beginning of this report, there is a fundamental difference in the basis and rationale for regional co-operation/integration between the advanced countries and the developing countries. Strictly speaking, it is even inappropriate to compare the ASEAN regional co-operation efforts with those in the Andean Pact. A proper analysis of the success and failure of any Third World integration scheme should be undertaken in the context of the specific historical circumstances from which such a scheme has evolved, e.g. the geo-political forces that shaped it and the many structural problems inherent in the economies covered by the scheme.

Take the case of ASEAN, which is probably one of the world's most heterogenous regions by virtually all criteria. Regional economic co-operation in ASEAN may have yet to produce significant benefits; but whatever it has achieved is actually a significant landmark by itself if measured against the possibility of non-co-operation. Given the fact that the modern history of Southeast Asia is strewn with strifes and conflicts, there might well have been considerable "negative benefits" from non-co-operation had ASEAN never come into existence. Viewed in such a broad context, the ASEAN record is far from dismal. Similarly, the Andean record is certainly not unimpressive.

Third World countries have never experienced smooth sailing in their efforts towards regional economic co-operation. Following independence, most of them faced immense political problems with their neighbours. Apart from their overall economic backwardness, the structure of their economies were generally oriented towards the industrially advanced countries and they had a low level of complementarity with each other. This is much evident in the low volume of intra-regional trade (e.g. 3 per cent for the Andean Pact). A long period of dependent development has therefore resulted in these economies being closely integrated with the advanced countries -

not necessarily their former metropolitan countries in the colonial times but the advanced developed economies in general. Successful regional economic integration will involve both "disintegration" in the sense of disengaging some economic activities of the member countries from their traditional ties with the advanced countries, and "reintegration" in the sense of redirecting economic activities towards the regional focus. It is therefore exceeedingly difficult for the developing countries to achieve substantial breakthrough in regional economic integration in the short run without extensive structural change. The process demands painful adjustments on the part of the member countries and gives rise to considerable internal and external imbalances for their economies particularly for the less developed members.

Furthermore, economic integration may be a desirable long-term goal for a region as a whole, but it may not be immediately crucial for the individual countries or it may not turn out immediate benefits in a significant way, especially during the initial stages of integration activities. Thus integration programmes usually cannot claim high priority from individual member countries, which will continue to be preoccupied with their own domestic economic and social problems. Take the case of ASEAN again. With the exception to certain extent of globally-oriented city-state Singapore, which is also economically the most advanced, the ASEAN countries are still saddled with such acute development problems as poverty, unemployment and income inequality (as are the Andean Pact countries). To cope with these problems effectively, the individual ASEAN governments cannot count on any external economic co-operation scheme at this stage, but need to devise more determined domestic policy measures - e.g., a more imaginative rural development programme, or a more broad-based development policy aimed at greater employment generation. Within a specific member country, the benefits of economic integration (arising from the so-called "trade-creation effect") are invariably concentrated in its urban sector and are unlikely to trickle down to the millions of peasants in its rural hinterlands. To the extent that an integration programme could alter the relative economic position of different social groups in different sectors or localities, care will have to be taken that it will not lead to undesirable polarization effects which may well undermine the country's development efforts in the short run.

Apart from the above "macro" considerations, regional integration activities at the sectorial or industry levels are faced with different but no less difficult obstacles. Take regional co-operation in the field of industry, which can be regarded as the engine of economic integration. It is true that regional economic co-operation could contribute greatly to the region's overall industrialization efforts. But the circumstances from which industrialization in each member country has evolved often bear little relationship to the conditions for regional economic co-operation. Specifically, the approach to industrialization in each member country has been purely nationally, rather than regionally, oriented, even though the basic rationale behind the drive to industrialize (e.g. to diversify their primary exports based economies) and the basic pattern of industrialization (e.g. to follow import-substitution strategy) in these countries are the same. Within each member country industries have generally been set up in locality, in scale and in linkages that were calculated to meet national demand, and national economic policies such as tariff protection have been specially designed to nurture their viability as national concerns. Thus any regional industrial programme would involve the difficult task of crossing the formidable "national barriers" of the member countries. Regional industrial programme might appear simple or moderate in design at the regional level, but, as shown by the Andean experience, it could turn out to be a very complex undertaking as soon as it attempts to integrate into the national structure, because it would touch off chain-effect reactions in the national economy. A whole range of issues and problems would often ensue: new infrastructural development, changes in tariff and pricing policies, and problems associated with employment, location, linkages and so on. In short, even a simple "micro" integration project would entail wide-ranging macro-economic issues at the national level. This explains why the AIP projects in ASEAN have met with delay in implementation or even outright concellation even when these projects have 'green light' at the regional level.

In view of the tremendous problems and obstacles inherent in the regional economic integration schemes of the Third World, it would be highly unrealistic to expect quantum-jump results. Similarly it would be unrealistic to pass hasty judgements on the success or failure of any programme, especially against the criteria of neo-classical economic framework based on short-term perspectives. Firstly, regional integration endeavours must be viewed as necessarily a long-term undertaking, and the

process must be sufficiently long so as to allow national economies to make the crucial structural adjustments. Secondly, any regional integration scheme, to be effective, must not be independent of the national development policies pursued by the member countries. Indeed, as in the case of Venezuela. the regional scheme might be as well a tool to bring about needed rationalization in the local industry having developed behind high tariff walls. In the long run, continued economic development is the best means for achieving the regional integration goals. Thirdly, for smooth implementation, individual "micro" integration programmes must be designed to fit into the macroeconomic reality of the member countries.

Both ASEAN and the Andean Pact have been in existence for over a decade, and their past efforts towards regional economic co-operation/integration have yielded considerable experiences which will not only be useful for their future work programmes but will also hold valuable lessons for similar efforts to be undertaken in other parts of the Third World. It is therefore high time to come to stocktaking and bring out the salient features of the co-operation/integration activities of these two regions in a comparative perspective.

(b) Co-operation vs integration

As has been brought out at the start of this Report, there is a clear distinction between "regional economic integration" and "regional economic co-operation", even though the two terms are often mixed up in common usage. The Andean Pact has officially referred to all its regional activities as "integration" whereas in ASEAN the word "integration" has never been put on official records and all regional activities are consciously referred to as "co-operation", implying less farreaching objectives. The use of different terms by these two regions is not accidental but deliberate. It is important to bear this in mind in making any comparison of the events and developments between ASEAN and the Andean Pact.

Right from the start, the Andean Pact was aimed at an ambitious integration objective along the lines of an economic union. In fact, the Andean Pact broke off from the LAFTA primarily because the Andean countries were impatient over the lack of progress in the integration schemes under the LAFTA or, rather, that the integration benefits LAFTA tended to bias against the smaller members. To this end, the Cartagena Agreement was designed to look beyond the mere establishment of a free trade zone as

advocated by the Treaty of Montevideo for LAFTA, and to proceed with a much more intensive integration process for a more advanced form of regional set-up. Thus vigorous tools for the fulfilment of the integration goal were devised by the Cartagena Agreement, attacking the problem of integration from several angles. First, an aggressive trade liberalization programme was spelled out with the objective of not just reducing existing tariff and non-tariff barriers among the member countries but also setting up a Common External Tariff eventually. Second, there were the regional industrial programmes to ensure industrial complementation and to avoid wasteful duplication. The back-bone of the regional industrial programmes is contained in the Sectorial Programmes for Industrial Development, which are very much an innovation in themselves. The third major instrument was the Andean Development Corporation (CAF) which is charged with the responsibility of studying and identifying new integration projects in the region as well as channelling resources to these projects. There were also other mechanisms for promoting integration, such as harmonization of economic and social policies in the Andean Pact subregion and the objective of concerted agricultural policies.

All these integration instruments were supposed to operate concomitantly The objective was to promote regional integration in such a way that it would lead to harmonious and balanced development for all the member countries. Clearly the Andean Pact's approach to regional integration is unique. Many a regional grouping in the Third World has too often contained "toothless" integration mechanisms, not effective for the purpose of achieving real integration. Others have taken a piecemeal approach, which is also not effective in achieving an initial breakthrough or in ensuring the subsequent smooth progress towards real integration. In contrast, the Andean Pact followed a "big push" approach to integration from the outset, attacking the problem from a broad front. The overall objectives were made known in a clear-cut manner to all the members, which would also pledge to work towards the common goals.

Having set out the ambitious integration targets, the technocrats of the Andean Pact proceeded to build up an elaborate implementational machinery based in Lima. Thus the Cartagena Agreement is backed up by strong institutaional and technical organs, complete with technical and administrative staff, for the implementation of the integration agreements. However, as has been repeatedly indicated earlier, the Andean Pact programmes, such as the Sectorial Programmes for Industrial Development in their implementation

phases have run into numerous difficulties and obstacles, resulting in non-compliance and other hinderances. Above all, the elaborate agreed programmes have turned out to be difficult to implement in times of dynamic changes strongly affecting the sector, such as petrochemicals and automotive industry.

It may be argued that the Andean Pact has several favourable pre-conditions for developing such a unique "integrated system" for regional integration, which may not be immediately present in the case of other regional groupings. To begin with, Latin America has inherited a strong integration movement. The Andean Pact was particularly highly motivated towards integration when the Andean Group decided to go ahead with their own subregional arrangements for integration. Many of the Andean Pact's work programmes and mechanisms were developed in an effort to avoid the mistakes and shortcomings of LAFTA, and the experience of LAFTA was very useful for the Andean Pact in devising its separate approach to integration. Politically, some Andean Pact countries have followed a somewhat "authoritarian" style of government, and as a group the Andean Pact countries are quite amenable to a strong centralized approach to integration, or an integration scheme with a high interventionist tone. Socially and culturally, the Andean Pact countries are quite homogeneous, making it easier for individual governments to commit themselves to support such a high-profiled integration scheme. Even geographically, the Andean Pact countries form a compact group, which also facilitates physical integration. Although in practice the direct physical transport and trading links are relatively undeveloped (and often much less developed than those with overseas countries through shipping). Few regional groupings in the Third World are endowed with all these initial advantages.

This is certainly the case of ASEAN, which in many ways stands in sharp contrast to the pattern of integration taking place in the Andean Pact. ASEAN has officially expressed no immediate desire for any far-flung integration objectives. Any regional activity officially falls into the narrow confines of only "regional economic co-operation", not "integration". Compared with those in the Andean Pact, many ASEAN co-operation programmes are certainly not sufficiently "biting", or effective enough in terms of building up a sizeable regional component in the overall ASEAN economy. Nor is there any sophisticated structure in the Secretariat of ASEAN, comparable to that in the Andean Pact. The implementational machinery of ASEAN is largely composed of a host of ad hoc committees or working groups, with the final decision-making vested in the ministerial meetings held at

only frequent intervals. In short, for the earlier part of ASEAN's existence, there was no formal charter; nor was there even a Secretariat, which came into being only after the Bali Summit in 1976. Economic co-operation was only a small aspect of the broadly defined "regional co-operation". However, even after the Bali Summit, when serious efforts were mounted to get away from the "symbolic" co-operation, the progress towards substantive regional economic co-operation has been limited. In contrast to the "big push" method adopted by Andean Pact, the ASEAN's approach is clearly piecemeal, following gradual steps. Much energy in the ASEAN co-operation has been absorbed in building up a consensus, and most co-operation programmes have to go through the long and tortuous course of negotiation before progress can inch forward.

It would seem best to characterize the pattern of ASEAN economic co-operation as a "laissez-faire form of regional co-operation", which leaves member governments a great deal of leeway to adjust to the regional demand. It is naturally tempting to jump to the conclusion that the powerful approach to integration by the Andean Pact is the most effective while the relatively "toothless" ASEAN co-operation schemes are ineffectual. While there may be some elements of truth in this, such a conclusion is also over-simplified For though the "integrated" approach of the Andean Pact certainly represents a remarkable achievement, the "big push" to regional co-operation/integration for these developing countries may not, in its implementation phase, have contained the flexibility and sensitivity to dynamic changes necessary, thus running the risk of over-stretching the integration system or outstripping the limits of the changing economic realities existing in these countries.

An "optimal" system of co-operation for a region is one which takes full account of the objective conditions of the region. It may be said that ASEAN has from the start tailored its co-operation programmes to suit its own needs and to fit its own circumstances. ASEAN has therefore placed top priority on nurturing consensus rather than seeking to reach unrealistic objectives. This process was considered indispensable for a region with so much inherent diversity and heterogeneity. In ASEAN, the political, social and cultural distance amongthe five members, though considerably narrowed over the years, remains wide. The physical distance is also there. What is really crucial for ASEAN economic co-operation is not the speed, but the direction. It seems clear that the process of regional economic co-operation for ASEAN will be a long, drawn-out affair.

There will be no likely sensational breakthrough. But neither will there be a turning back. Insteed, the unmistakable trend of steady and gradual movement towards a higher level of co-operation will continue. Such is the Southeast Asian way of regional integration, perhaps the only way for the region, to achieve that goal. It is no drawback for ASEAN economic co-operation to grow slowly and steadily, provided it has not lost its direction.

The ASEAN approach to regional economic co-operation, characterized by gradualism and the consumate way of consensus building, is also a valuable lesson for other Third World regional co-operation endeavours. The ASEAN experience is particularly instructive for countries short of favourable preconditions for regional economic co-operation.

(c) Special treatment of less developed members

Any regional economic co-operation scheme is apt to produce a differential impact on the member countries in respect of their foreign trade, production structures, factor availability and infrastructural needs. But the participants are sovereign nations, with each naturally seeking the objective of maximizing its own national welfare as a starting point. They will extend genuine co-operation only if they can expect to reap what they perceive to be an equitable share of gains. Thus the problem of uneven distribution of potential benefits and costs arising from a co-operation programme is a real one.

The equity issue looms particularly larger in the regional economic co-operation schemes of the Third World, which are usually constituted by member countries with a great disparity in respect of stages of economic development and the orientation of their economies. Thus the member countries which are more dynamic are likely to stand to gain more from the emerging regional economy. So are those member countries which are more outward-looking. It is therefore necessary for a viable regional economic co-operation scheme to give special consideration to the relatively less developed members in the group in order to reduce any glaringly unequal distribution of benefits and costs.

One outstanding feature of the Andean Pact is the ways it has addressed the distributional issues. From the beginning, the Andean Pact countries stressed that they could maintain their national sovereignty only if they

could preserve a definite equality among themselves. Such equality would be realized only if measures were taken to counteract the "natural" tendency for development to be concentrated in the areas which are already more developed than the rest of the region. Hence the Cartagena Agreement incorporated special treatments for Bolivia and Ecuador, the subregion's least developed members. Special measures for these two countries were largely contained in trade liberalization and the market reserve arrangements under industrial programming.

The special treatment for Bolivia and Ecuador has been briefly dealt with in Chapter III. Suffice it to repeat some salient points here. In the trade liberalization programme, it is provided that Bolivia and Ecuador need not eliminate tariffs and restrictions on products included in the Common List for a period of protection of 10 years. In the industrial programming, for the industries and products selected by the Junta and the Commission for sectorial development, substantial concessions will be made to Bolivia and Ecuador in regard to the designation of plants, determination of intra-Andean Pact tariff-cutting rules and common external tariffs. In addition to the privileged treatment within the sectorial programmes, the Cartagena Agreement also contained an important provision for the automatic assignment of production to Bolivia and Ecuador.

How have Bolivia and Ecuador benefited from all the special attention given to them? Although the Cartagena Agreement recognized the danger arising from the uneven distribution of gains from integration, it did not establish any desired distribution pattern, partly because it would be difficult to work out explicit distributive norms. Consequently, the main thrusts of the Andean Pact integration process as contained in the establishment of a minimum common external tariff, the introduction of trade liberalization and the allocation of industries within the Sectorial Programmes of Industrial Development have been largely the result of intergovernmental bargaining rather than of conscious economic analysis. Yet these are activities which will precisely determine the distribution of benefits among members. As a result, the special programme for Bolivia and Ecuador has fallen short of targets.

In the ASEAN/Andean Pact Conference in Lima the delegates from the Andean Pact admitted that Bolivia and - to lesser extent - Ecuador have not derived as much real benefits from all these special arrangements made for them by the Andean Pact as they should or could, basically because

these two economies are still relatively less developed than the other Andean Pact members to benefit susbtantially from the integration process. This sounds like a vicious circle. To the extent that Bolivia and Ecuador are still not sufficiently trade-oriented, they stand to gain not much from the trade liberalization programme, despite concessions granted to them. Since their infrastructures are underdeveloped, the SIDP has also not been effective for them. This brings to the fore the very important issue in the special treatment of less developed member countries in an integration scheme. It is not sufficient to recognize the importance of the distributive problem in an integration process; nor is it sufficient just to incorporate special treatment measures in the integration scheme. Of greater importance, the special treatment mechanism must be realistically designed in such a way as to match the capacity of the less developed member countries properly or to enable these countries to absorb the benefits from integration. It does seem to be the case that the integration projects of the Andean Pact have been ambitiously aimed at too high a level or have been biased too much towards large-scale activities, so that the small and less developed economies of Bolivia and Ecuador were not in a position to gain directly from all these integration arrangements. This is a useful lesson for other Third World regional groupings.

ASEAN has given no official provision for a special treatment of any member country. But this does not follow that the issue of distributive gains is not important in the ASEAN context of co-operation. Actually the problem is indirectly tackled under the "consensus mechanism". In reaching a consensus, no member country could take undue advantage of others and no member country needs to feel that it has been taken for a free ride. Indeed, much of the delay in implementing the ASEAN co-operation projects has been due to the difficulty in fostering the required consensus, and the failure to build up the consensus has been largely caused by the fears of the potential uneven distribution of benefits and costs. This is particularly evident in the negotiations over the AIP package and the trade liberalization scheme. Negotiations over specific projects are usually undertaken by the cautious bureaucrats, mostly technocratically inclined but often perhaps too sensitive to the potentially adverse redistributive effects on their own countries. The negotiators would commit themselves to projects only if they could perceive prospective gains or expect the gains to be equitably distributed. In short, ASEAN has not left out the distributive issue but has instead handled it in a rather time-consuming manner.

As noted before, ASEAN as an economic grouping is much more diverse than the Andean Pact. But the economic asymmetry of ASEAN stands in even sharper contrast to that of the Andean Pact. In ASEAN, as shown in Table 1, the poorest member in terms of per capita income is Indonesia, which happens to be the largest country; while the most advanced member, Singapore, is a very small city-state. In the Andean Pact, the more developed member countries could afford to give special considerations to the less developed ones, which happen to be relatively small and may not impose an unacceptable cost on the more developed countries. Obviously, the same could not be operative in ASEAN, in which the relatively more backward member is such an enormously large country. In ASEAN, at its present stage of development, no amount of redistributive bias (which could impose high sacrifices on the part of the more developed members) could be sufficient to make substantial difference in terms of upgrading the Indonesian economy. It may be added that Indonesia's relatively weak economic muscles in per capita terms are in part compensated for by its considerable natural resource endowment and its political pre-eminence. Indonesia is politically the most powerful nation in Southeast Asia on account of its sheer size, which naturally carries with it a strong political bargaining power. In a decision-making process based on consensus, political influence is an important factor.

Since the vital distributive issue is incorporated in the consensus process, the consensus mechanism warrants an additional comment here. It has become clear that virtually all the ASEAN co-operation projects have involved a lengthy process of negotiation, which accounts for their low implementational rates to date. The first major advantage for reaching a consensus is that all the difficult issues have been sorted out beforehand so that the subsequent smooth implementation can be assured once the final approval is given. Further, the consensus process ensures that no party needs to be "upset" by the approved arrrangements and no party needs to make disproportionate sacrifices. Hence an acceptable level of equity will prevail. But the whole mechanism of reaching consensus is evidently very cumbersome and rigid. It often turns out to be a political exercise, involving a lot of balancing of pros and cons or adjusting to reciprocal demands, so that the end result may be far removed from the economist's ideal of equitable distribution of benefits and costs. Further, a total consensus is one which will have to accomodate the demands of all parties, and this often proves to be an extremely difficult business.

In April 1980, Mr. Lee Kuan Yew of Singapore put forward the principle of "Five-Minus-One" as a "modified consensus". This new approach can be used to replace total consensus as the basis for industrial co-operation. Thus, if four ASEAN members have agreed and one did not object, this could be taken to be an "ASEAN consensus" for any regional programme. In practice, this means, for instance, that if Singapore could stay out of some regional programmes, it would facilitate their implementation without causing fear that the most advanced member - that is Singapore - would take too much advantage out of the programmes. In short, the consensus mechanism itself needs to incorporate flexibility. It is very much in this vein that the new ASEAN Industrial Joint Venture (AIJV) scheme has been developed.

This raises another important issue crucial to the success of regional economic co-operation. Member nations must approach co-operation with flexibility and pragmatism. While it is important for member countries not to leave out the distributive implications in any co-operation or integration programme, the question of equity should not be interpreted in a narrow and static framework like a zero-sum game, whereby one member's gain is necessarily the other's loss. It should be stressed that much of the benefits and costs of a regional programme, such as the creation of a new industry in a developing economy, is at best difficult to detect or quantify, especially before the industry is put into operation. All new investment projects involve some elements of risk; their execution therefore requires an act of faith. Economic analysis should serve only as a rough guideline, but decision makers must approach the co-operation problem with an open mind. In the short run, regional co-operation demands adjustments from member countries, and there could be negative externalities arising from such an adjustment process. Member countries must be prepared to trade off short-term costs for long-term gains. In other words, beyond the cost-benefit exercise, vision is also required for implementing economic co-operation programmes.

The distributive issue is central to the success of a regional scheme, but the problem should be tackled with greatest pragmatism and flexibility. In terms of long run strategy for regional co-operation or integration, too much focus on the distributional aspects at the initial stage could well be a mis-directed emphasis.

(d) Industrial programming

The Andean Pact has not only placed a strong emphasis on industrial co-operation as the mainstay of its overall integration programme but also devised a rather innovative technique for regional industrial programming (or joint industrial programmes). The main thrust of the industrial programming lies in the much published Sectorial Programmes for Industrial Development (SPID), which cover the Metal Fabricating Programme, the Petrochemical Programme and the Automotive Industry Programme, with the last in particular receiving wide attention.

It is easy to understand why the Andean Pact has paid so much attention to the industrial programming. First, as emphasized before, for these developing countries to form a regional grouping, the potential immediate gains from their trade liberalization were rather limited as they do not basically trade with each other. Gains were thus expected to come mainly from industrial integration through greater investment, better utilization of productive factors, and larger external economies of production. At the same time, some member countries were already deep in the import-substitution process while others were about to intensify their efforts within such a strategy, resulting in the proliferation of (high cost) industries which were badly in need of rationalization. The pattern of industrialization and the status of its progress in the Andean Pact offered an excellent opportunity for initiating regional industrial co-operation in selected sectors within the framework of the SPID.

It has been suggested that the industrial programming as developed by the Andean Pact is essentially a form of extended import-substitution. Strictly speaking, there is a very substantial difference between the Andean industrial programming under the SPID and national import-substitution industrialization so characteristic of the individual Latin American economies. The difference lies in the size of the market that each of these options for industrialization has envisaged. Typically, national import-substitution is characterized by the establishment of too many inefficient large- or medium-scale industries, heavily protected by high tariffs. Their unit costs are excessively high, beacuse the actual scale of production falls short of the optimal scale on account of the limited domestic market.

The Andean SPID is supposed to tackle directly the problem of excess capacity. In principle, not only is the regional market several times bigger

than any individual national market, but the individual SPID programmes do not allow more plants to produce a commodity than will be required to ensure efficiency once the regional market is fully developed. In other words, only enough firms to ensure some competition are allowed, and the gaps between optimal and actual scales of operation in these firms will therefore be reduced.

Take the automotive programme. The Andean Pact represented a market of 300,000 vehicles in 1980, which was expected to more than double by 1988. In order to make regional car production more efficient, the respective SPID allows only one regional model of small cars (up to 1,050 cc), two models of small to medium cars (1,050-1,500 cc), three models of medium to big cars (1,500-2,000 cc), and two models of big cars (more than 2,000 cc). This makes up a total of eight models, allowing a reasonably large market for each model. By the end of 1980, models had been assigned to member countries, with several immediate effects. First, it led to consolidation and rationalization of the existing automotive industries in the member countries. Second, in moving from national markets to the regional one, the various automotive plants were expected to lower costs and prices. Third, as a result of regional arrangements, the automotive industries found it easier to enter into technical and production agreements with some international automotive companies on more attractive terms.

How relevant is the Andean Pact experience in industrial programming to ASEAN or other regional groupings? With its own regional co-operation programmes in the field of industry (the AIP, AIC and recent AIJV) progressing at a slow pace, ASEAN has been looking with interest at the experience of industrial programming of the Andean Pact. As with other areas of integration in the Andean Pact, the great merit of its industrial programming lies in the co-ordinated approach or the way by which the Andean Pact technocrats have boldly and comprehensively planned the joint industrial programmes for the key indsutries in the subregion. The lessons to be learned of the less successful implementation are also well taken.

Apart from the SPID for the new regional industries, there are also measures for rationalizing the existing small and medium industries with a view to bring them eventually into the integrated regional economy. In contrast, ASEAN's approach to regional industrial co-operation, as reflected in its existing AIP and AIC activities, has been somewhat incoherent, based on a great deal of ad hoc piecemeal arrangements.

It should, however, be pointed out that while the Andean Pact technocrats might have performed a superb task in formulating comprehensive joint industrial programmes for the SPID and that they might have faced little difficulty in the selection of sectors to be included for such programmes, the major stumbling block to the implementation came from the allocation of industries for the operation of the SPID. The allocation process, i.e. the assigning of industries to specific member countries for the implementation of SPID, actually determines the benefits to be derived by the member countries and thus poses the greatest obstacle. Herein lies the moment of truth. For any integration attempt in the developing world, the major problem is not associated with the initial formulation of the integration plans as such but comes from the allocation of new industries to the individual member countries. The overall inddustrial programming may by itself be a well-conceived scheme, but it has to go through the political process of allocation, usually done on the basis of negotiation among member countries. The problem is that there is no assurance as to whether the resulted negotiated solutions are optimal in the sense that industries are rationally allocated to minimize costs. More often than not, the negotiation process is likely to be a protracted one and its outcome highly coloured by political considerations. In reality, there is no indication that the allocation process itself in the Andean Pact is inherently superior to the one in ASEAN, or vice versa, because it is basically a political process reflecting the dominant political characteristics of the group. It may well be true that the process of consensus building as developed by ASEAN has more merits in the long run than that followed by the Andean Pact!

Another cautionary note to be sounded about the Andean Pact practice of industrial programming is that the Andean approach seems to be too much of import-substitution in orientation. As it has been pointed out earlier, there is indeed considerable difference between the Andean approach to industrial programming and the conventional import-substitution strategy. The Andean Pact has taken steps to ensure the SPID indsutries are viable by themselves within the enlarged regional market whereas the conventional national import-substitution industries are usually inefficient due to excess capacity. While it is difficult to generalize, if industries behind national tariff barriers are inefficient, there is no reason to expect that industries behind <u>regional</u> tariff barriers are any more different in the long run once the extended regional market is exhausted. It seems clear that the SPID industries are essentially inward-looking. The ultimate test

of efficiency for industries is not the degree of their reduction of costs and prices as a result of a larger regional market but whether the industries can stand up to international competition. In other words, the regional industries too will have to make the transition from import-substitution to export expansion. Indeed, it is even more important for the regional industries (than for national industries) to reach such efficiency level as in each case the non-host countries among the Andean Pact members would certainly wish to see costs and prices approach those of internationally fully competitive industry.

Import-substitution has deep roots in the Latin American economies. Economies like those in ASEAN which are more outward-looking will have to look into ways and means whereby the Andean industrial programming can be modified or restructured in order to incorporate more dynamic elements of export expansion. In the long run, regional industrial co-operation should be more than an extended phase of import-substitution. After the initial transition, regional industries should also look to the dynamic world markets.

(e) The role of foreign investment

Although regional economic co-operation/integration in the Third World is manifestly an attempt towards a high degree of "regional self-reliance", regional groupings in the Third World have maintained more or less intensive interaction with the world economic processes. Many developing countries are small and open, and their economic links with the industrial countries has been so extensive that the foreign influence on these economies are likely to remain a major factor well after the start of the integration process. It seems realistic for these regional groupings to plan their co-operation/integration programmes to interact with the foreign economic component by taking advantage of it.

Within the integration process, programmes such as trade liberalization or co-ordinated industrial development can weaken the position of the member countries vis-à-vis the TNCs if the integration activities are not accompanied by some regionally agreed treatment of foreign investment. For now the gamut of options open to TNCs is expanded along with integration, as TNCs by investing in one of the member countries can have access to the newly-opened regional market. Some TNCs may well be in a position to derive bargain with more

than one of the countries to ensure greatest privileges. Hence the need for a common policy towards foreign capital.

As already discussed in Chapter III, the Andean Pact from the outset established strict but stable regulations governing foreign capital. The original Decision 24 was intended to be a kind of common investment code for the subregion, which contains uniform minimum restrictions to be applied by member governments to foreign capital but leaving member governments to legislate stricter norms if deemed necessary. The key expression for the Andean Pact's common approach to foreign investment was "stable and predictable". But it was at one time interpreted (by some foreign countries) as "anti-foreign investment", because the primary objective of Decision 24, at least for its first six years, was to protect the incipient common market from foreign transnationals which migh take undue advantage of the enlarged regional market. Accordingly, two provisions were laid down to counter the potential threat from TNCs. Firstly, new foreign investment was to be excluded from certain basic industries and those already established would have to divest themselves of up to 80 per cent of their shares within 3 years. Secondly, there was a "fade-out" formula for all old and new foreign investors. Foreign enterprises already established in the subregion would have to work out a gradual divestment plan that would give locals majority control (51 per cent) of the total shares within a period of 15 years. New foreign investment was also required to work out a similar fade-out schedule once production started. Indeed, the Andean Pact had meted out a tough deal to foreign investment, by the average standard of the Third World.

In actual implementation, however, the severity of the Andean Pact common investment policy was much reduced, partly due to the existence of loopholes, and partly because individual member countries had the leeway to work out their own special deals with particular TNCs to suit their own national interests. For instance, foreign interests controlling the vital, foreign exchange earning extractive sector have largely been subjected to relatively liberal treatment. The Andean Pact experience in dealing with foreign capital has therefore yielded a valuable lesson in that it would be highly unrealistic for Third World regional groupings, given their existing economic structures, to exclude the foreign economic elements entirely from their mainstream integration process. It is really a question of balance: how much foreign economic interests - foreign capital plus

foreign technology - and what kind of foreign economic interests should be utilized to accelerate the integration process. A carefully planned strategy for interacting positively with foreign economic interests could work to the advantage of a regional grouping.

The role of foreign investment is clearly viewed from a different perspective in ASEAN, which, as earlier mentioned, appears to be generally more outward-looking than the economies of the Andean Pact. In ASEAN, TNCs do not raise the same degree of emotions as they do in some other regions of the Third World, largely because the ASEAN countries have been able to harness these external economic forces, namely, foreign trade and foreign investment, for their high economic growth. The sources of foreign investment in ASEAN, unlike those of the Andean Pact, are also quite diversified. Apart from US foreign investment, Japanese and EEC capital is getting increasingly more prominent in the ASEAN countries. Foreign investment in ASEAN was originally concentrated in trading and the primary resources development; but in recent years it has spread out to the manufacturing sector in response to the various incentive schemes offered by the individual ASEAN countries. On the whole, foreign capital has played a useful catalyst role in ASEAN's industrialization progress. It has also contributed significantly to ASEAN's manufactured exports, although its performance in employment creation and technology transfer is generally less satisfactory. The fact that the ASEAN governments still spare no efforts in putting up new forms of incentive structures to attract more foreign capital can attest to the continuing economic importance of foreign investment in the ASEAN region.

If the foreign economic component has already carved out an important existence in the ASEAN economies, it would be economically unwise to plan the regional co-operation process to bypass it. Thus, from the beginning, ASEAN has made no specific attempt to exclude foreign participation from the many ASEAN co-operation programmes. The first AIP package was originally envisaged as an exclusively ASEAN concern. As the first AIP package ran into difficulties, the barriers against foreign elements were broken; e.g. the Thai project does not rule out foreign participation as a minor shareholder. In the AIC scheme, the door for foreign participation has opened up further, as the private sector is supposed to play a dominant role in the AIC scheme; but the private sector in ASEAN in known to have a close linkage with foreign companies through various forms of joint ventures

arrangements. The view that foreign investment is not inimical to ASEAN's efforts towards regional co-operation is in fact rapidly gaining ground. If foreign capital has already played an important role in the individual national economies, there is no reason why it cannot similarly play a positive role in the regional economy in future.

ASEAN economic co-operation has not yet advanced to the stage that it needs to set up elaborate regulations and rules for a uniform treatment of foreign capital, though a kind of ASEAN code for TNCs may be useful. ASEAN may also find it useful to employ the regional framework to promote foreign investment in the region. Certain steps towards such co-operation have been taken, inter alia, through meetings with representatives of the countries' respective boards of investment or investment committees.

Whatever move in this direction, ASEAN is likely to co-opt the foreign economic elements to aid its regional co-operation process. ASEAN's approach to foreign investment is a lesson which could be instructive for the Andean Pact as well as for other regional groupings in the Third World.

(f) The role of the private sector

Regional economic co-operation/integration can take place under all economic systems. For the market economies, integration is basically a process of "market integration", which can be explained by the theory of comparative advantage as a form of international division of labour.

The discussion and exchange at the ASEAN/Andean Pact conference clearly brought out the basic difference between the Andean Pact's approach to integration and the ASEAN way towards regional co-operation. The whole process of Andean Pact integration was marked by intense bureaucratic (or technocratic) designs, which were implemented with a strong central direction. On the other hand, ASEAN had largely followed a more laissez-faire, open-ended approach to regional economic co-operation. While there are considerable merits to the Andean Pact's approach, which have been discussed earlier, the advantages when viewed from the perspective of a different regional grouping based on different political and economic orientations, may prove to be disadvantages. The highly structured integration programme of the Andean Pact could be regarded as one which tends to be rigid and inflexible. Such a manner of integration could pose many

real problems to the economies operating primarily on the dynamic market forces' system. The issue here revolves around the relative role assigned to the private sector.

By comparison, the ASEAN economies are more oriented towards the market system than are those in the Andean Pact. In ASEAN, the private sector (both foreign and local) has played a most significant role in the region's economic growth. It does not follow that the governments of ASEAN are not active or do not intervene in their respective economies. Indeed, in some ASEAN countries, one finds a strong public sector in the economy. The point is that the private sector has not been crowded out and there is sufficient market incentive for it to thrive and expand, particularly in the manufacturing sector. If the private enterprises are already deep-seated in the ASEAN economies, political and economic realism will naturally dictate that they be given a proper role in the regional economic co-operation process.

The slow progress of the first AIP package generated some criticism of the practicability of the ASEAN process for such large government-sponsored projects. It was suggested that had the private sector been given a greater role in the AIP, its progress could have been faster. Subsequently, in the AIC scheme, the important role of the private sector was properly recognized. In all the AIC activities, the ASEAN-CCI is to act as the official spokesman for the private sector. Thus, the private enterprises from various sectors are drawn into the regional co-operation process through their regional industrial clubs (RICs). Specifically, the new scheme, ASEAN Industrial Joint Ventures (AIJVs), was created for the private sector and by the private sector. Instead of the top-down process as in the AIP, co-operation initiative can now start from the bottom.

The private sector can no doubt make a substantial contribution to regional economic co-operation/integration efforts by complementing the role played by the public sector. In ASEAN, the private sector often operates its own network of business contacts, which can thus offer a convenient avenue to promote regional co-operation. More pragmatic and with a keen sense of economic viability, the private sector can bring a business-like approach to bear on the problems of co-operation, quite different from the bureaucratic style followed by most government officials.

Increasingly the ASEAN governments have come to recognize the vital role played by the private sector in ASEAN economic co-operation. Greater participation by the private sector is expected to inject more flexibility into the ASEAN system of economic co-operation and increase its momentum. The ASEAN experience of generating active involvement of the private sector in regional economic co-operation deserves close attention from other regional groupings.

(g) Extra-regional co-operation

Regional economic co-operation is made up of two interrelated components, intra-regional and extra-regional co-operation. Intra-regional co-operation refers to various programmes which will increase the level of internal economic integration of the region and usually forms the main agenda of regional activities. But the group is bound to interact with outside countries, and the leverage yielded to the group vis-à-vis the outside countries through its collective action can be termed "extra-regional co-operation". In the world of growing economic interdependence, the gains derived from the group's external relations are no less important. In fact, the pursuit of external political and economic objectives has increasingly become the main impetus for Third World countries to form regional groupings. It may well be the case that some regional groupings can reap higher rewards from their external operations than from their existing internal co-operation programmes.

At the ASEAN/Andean Pact conference, the Andean Pact participants seemed quite impressed by ASEAN's progress in its extra-regional co-operation. Whatever the issues that might have divided the ASEAN countries, the region appeared to be united in a commonality of interests in its relationships with countries outside the region, including its economic relationships with the industrially advanced countries. ASEAN's relationships with the industrial countries are systematized through various "dialogues", e.g. the ASEAN-Japan, the ASEAN-EEC and the ASEAN-USA Dialogues among others. These dialogues offer an effective means for ASEAN to maintain close relations with the individual or groups of industrial countries and to exchange views on issues of mutual interests, both political and economic. More significantly, the dialoguew provide a formal mechanism by which ASEAN could exert collective pressures on the industrial countries for more

concessions or to listen to ASEAN's common grievances on a wide range of vital issues such as primary commodities, protectionism and the MFA. It was because ASEAN could negotiate as a group that each of the five countries was able to get better benefits than if they had negotiated individually. Besides, ASEAN also took a unified stand in various international forums organized by the UN bodies and other international organizations such as the OECD, World Bank, IMF, and the Non-Alignment Movement. Over the years ASEAN's effectiveness has immensely increased due to its approach to international problems and its stand on various issues. ASEAN's impact as an important emerging economic force is steadily gaining international recognition.

ASEAN's economic influence, both actual and potential, is strongly grounded on real factors. ASEAN's relatively strong economic muscles (at least in the Third World context) were developed as a result of sustaining a long period of high economic growth and are supported by a rich natural resources base. As already noted in Chapter I, ASEAN is one of the world's fastest growing regions and is endowed with a significant range of both renewable and non-renewable resources. Of even more importance is the outward-looking economic policy generally pursued by the ASEAN governments. To exploit its basic economic advantage, ASEAN has maintained close linkages with the economies of the advanced countries. It is true that such linkages have led to high dependence on the industrial countries. However, ASEAN is not really over-dependent on any single country, as has been the case with Latin American countries. ASEAN's diversified dependence creates a leeway for it to take advantage of economic linkages with the advanced countries.

It thus becomes clear that ASEAN's strong performance in its extra-regional co-operation is rooted in some special economic and political circumstances peculiar to the ASEAN region. Some have pointed out that ASEAN's achievements in external relations have by far overshadowed its internal progress in economic co-operation, leaving one with the impression that ASEAN is more a economic pressure group than a serious body for regional economic co-operation. This observation appears to be oversimplified. It may be true that it is much easier for a regional grouping like ASEAN to make progress in extra-regional co-operation because for many issues the ASEAN countries can find common grounds to work for their common interests and common needs. Thus there is no reason why ASEAN should not make use of

its inherent advantages to obtain more leverage in its external relations with others. On the other hand, intra-regional co-operation is much more difficult, as it often entails the uneven distribution of costs and benefits at the intital stages and demands adjustments from individual member countries. Hence the progress in internal co-operation is bound to be slower. At the same time, it should be stressed that ASEAN has not reduced efforts at promoting intra-regional economic co-operation.

While it is high time for the Andean Pact to look a bit more outward and step up its extra-regional co-operation, it is also imperative for ASEAN to take measures for a more vigorous intra-regional economic co-operation. In the long run, there should be a proper balance between extra-regional co-operation and intra-regional co-operation. The ASEAN experience in extra-regional co-operation has, nonetheless, clearly demonstrated that regional economic co-operation/integration in the Third World should not be inward-looking in nature. A regional grouping should also be inclined to interact with countries outside the group and be ready to maximize whatever leverage and external opportunities arising from the formation of the regional group.

(h) Other issues

Apart from the above dominant considerations, there are a few more issues which arise from the comparative analysis of the co-operation/integration experience of ASEAN and the Andean Pact. One crucial area which is of potential significance but has yet to produce practical results is the harmonization policy.

Whenever a group of countries move together towards serious economic integration in a progressive manner, a common framework will develop, providing member countries a base to interact for the pursuit of some common objectives. But the framework will inexorably become tighter along with a more intense integration. Within the framework each member country must adjust its policies to accommodate other members. Such a process of interaction for the achievement of some common goals is, by way of a simple definition, harmonization of policies. Harmonization is not sought for its own sake, but mainly for its contribution to a more efficient use of potential benefits from the integration. Thus the ultimate objective of harmonization is to bring as much national economic activity as possible

into the newly created regional economy and to enable member countries to derive equitable gains from the integration process.

A wide variety of public policies, tools and institutions are amenable to policy harmonization, depending on the extent and objectives of integration. The design of an effective harmonization programme requires a proper balance of technical sophistication and political realism with due sensitivity for the national authority in respect of its autonomy of decision over certain aspects of the regional project.

In the Andean Pact, the individual integration programmes carry their own instruments for policy harmonization. For instance, the SPID for the Automotive Industry is accompanied by specific measures for harmonizing tax legislation and exchange rate policy with respect to vehicles. Apart from the specific measures, the process of harmonization at the "macro level" is also important. It aims at bringing a regional perspective into the policies of the member countries in regard to their industrial planning, monetary and fiscal policies, social and physical infrastructure development. Greater harmonization in all these areas will provide a more conducive environment for the implementation of the various integration projects and hence ultimately pave the way for more integration.

The Andean Group has no doubt made great efforts towards harmonization of economic and social policies for regional integration. But the Andean Pact experience serves to show that broadly speaking, the process of harmonization is subject to the same set of forces which has constrained the progress of its specific integration programmes. Thus the overall policy harmonization has progressed no further than what is politically and economically feasible for the Andean Pact at the present stage.

Apart from harmonization the Andean Pact has achieved good progress in technological co-operation. The various regional technological centres and their research programmes, directed to solve problems common to the region, have warranted specific attention. There are certainly great potentials for developing more technological co-operation in ASEAN, which has not had much of a start.

As ASEAN and the Andean Pact have followed different patterns and developed different modes of regional co-operation/integration, what they have achieved or failed to achieve will be highly instructive for each

other in their future regional endeavours. Any systematic synthesis of their successes and failures will in turn provide a valuable lesson for regional economic co-operation/integration efforts in other parts of the developing world.

The current international economic situations has presented a great challenge to all regional economic co-operation/integration efforts the world over. If the challenge has spurred the member countries of the ASEAN and the Andean Pact to make the necessary adjustments and to strengthen their existing regional programmes, then the two regions will survive the difficult period and emerge as even more viable groupings.

Chapter VI

PROPOSALS FOR ACTION AND FURTHER STUDIES

It is felt appropriate to conclude this analytical study with some proposals for future action and further studies, as follows.

(a) Suggestions for immediate action

The first round of the exchange between ASEAN and the Andean Pact should be completed as soon as possible by taking measures to expedite the return visit to ASEAN by the Andean Pact representatives.

The ASEAN participants at the ASEAN/Andean Pact conference expressed that their visit to the Andean Pact had been a valuable experience for them. The prospective return visit to ASEAN will hold great promise for an equally useful experience for the Andean Pact representatives, apart from providing another opportunity for both sides to continue their exchange and discussions.

Besides the return visit to ASEAN by the Andean Pact representatives, efforts should be mounted to bring other important groups of people from the two regions into contact and exchange through conferences, seminars or other formats. These are the people from the private sector, the academic circle, and the mass media. Contact among the businessmen and industrialists from the two regions could strengthen economic relations between the two regions, while contact among academics and journalists could help publicizing and articulating the issues of regional co-operation.

At the ASEAN/Andean Pact conference, both sides indicated a strong desire to continue to stay in contact and were keen to explore avenues for formalizing or institutionalizing such contact. At the initial phase continued outside support (particularly financial support) would be needed to maintain the flow of exchange.

The ASEAN/Andean Pact conference in Lima has clearly shown that regional groupings in the Third World are apt to follow a different modality, rather than a uniform pattern, in their regional industrial co-operation/integration, and that there is much that regional groupings can learn from each other's experience, particularly in respect of the techniques or methodologies of regional co-operation/integration. Participants of the conference also felt a strong need for more information exchange concerning regional industrial co-operation/integration efforts in the Third World. Consideration might be given to the possibility of establishing a network for regional industrial

co-operation studies, which also functions as a kind of information clearing house for all regional industrial co-operation/integration endeavours in the Third World. The Third World might be strewn with the wreckages of setbacks and even failures in regional industrial co-operation/integration attempts, but regionalism continues to hold a strong appeal to developing countries. Such an international network will therefore perform a great service to regional industrial co-operation efforts in the Third World in terms of synthesizing useful experience and effecting its transfer.

(b) Suggestions for further research

(i) Macro-perspective studies

The pattern of regional economic co-operation/integration for a region is normally shaped by its historical forces as well as the political and economic structure of its constituent members. Hence the intrinsic difference between ASEAN and the Andean Pact in their modalities adopted. On the other hand, they must also share some common goals, employ some similar tools, and face some similar constraints. There is therefore a need to analyze their structural similarities as well as differences. In Chapter V of this Report, a serious attempt has been made to bring out some salient structural differences and similarities in the approach to regional economic co-operation/integration by ASEAN and the Andean Pact. It is proposed that a more formal in-depth research be followed up. This study will make a comparative analysis, in a much more comprehensive and systematic manner, of the overall framework and mechanisms of regional economic co-operation/integration undertaken in ASEAN and the Andean Pact, with two major objectives: (1) To sift and analyse the aspects of the ASEAN and Andean Pact experiences in regional economic co-operation/integration for their operational relevance and applicability to each other; and (2) To construct a "synthetic model" of regional economic co-operation/integration based on the combined experiences of ASEAN and the Andean Pact, with relevance and applicability to other regional groups in mind.

The current international economic situation is not conducive to the growth and expansion of regional economic co-operation/integration. To cope with economic crises, both developed and developing countries are making economic adjustments, which will further strain many regional groupings. But the economic crises will also present regional groupings with an

opportunity to strengthen their existing programmes and framework. It is proposed that a research is organized to study how the member countries of ASEAN and the Andean Pact respond to the current international economic crises and the need for structural changes in their industrial set-up and what implications for their future co-operation/integration activities are likely to follow.

(ii) Specific research programmes

Chapter V has already highlighted in broad terms how ASEAN and the Andean Pact might learn from each other in regional economic co-operation/integration. Detailed follow-up studies on some major topics should be undertaken.

For ASEAN, it will be useful to organize a team (to include ASEAN researchers) to undertake in-depth study of the following major integration programmes of the Andean Pact with a view to (1) evaluating their relevance for ASEAN and (2) suggesting concrete measures for their possible application to ASEAN:

- The overall integration strategy of the Andean Pact, together with its implementational framework developed by the Andean Pact over the years.
- The industrial programming in Andean Pact, particularly the Sectorial Programme for Industrial Development (SPID), with special emphasis on the techniques in the formulation of the various SPID.
- The special treatment of the less developed members, with special emphasis on its rationale, its mechanism and its redistributive impact.
- The Andean Pact's experience in technological co-operation.

In return, a research team including Andean Pact experts may find it profitable to look into detail the following aspects of ASEAN economic co-operation:

(a) The process and pattern of consensus building in ASEAN, including its political style of negotiation.

(b) The mechanism of extra-regional co-operation in ASEAN.

(c) The role of foreign investment in ASEAN economic co-operation.

(d) The role of the private sector in ASEAN economic co-operation.

(e) Financial co-operation in ASEAN.

In addition, there is a range of diverse research topics which could yield high dividends to both ASEAN and the Andean Pact, and which could be undertaken jointly by researchers from both regions:

(a) Regional co-operation in agro-industries.

(b) Regional co-operation in resource-based industries.

(c) Regional co-operation in the promotion of manufactured exports.

Regional Industrial Co-operation:
Experiences and Perspective of ASEAN and the Andean Pact

Studies prepared

UNIDO/IS.282 "ASEAN Industrial Complementation". Study prepared by Mr. Vicente T. Paterno, Manila.

UNIDO/IS.329 "The Role of the Private Sector in Industrial and Technological Co-operation in ASEAN". Study prepared by Dr. Pakorn Adulbhan, Bangkok.

UNIDO/IS.281 "The Development of the ASEAN Industrial Projects (AIPs)". Study prepared by Professor Mohamed Ariff, Kuala Lumpur.

UNIDO/IS.310 "ASEAN Industrial Joint Ventures (AIJVs) in the Private Sector". Study prepared by Dr. Lee Sheng-yi, Singapore.

UNIDO/IS.346 "Co-operation in Industrial Financing in ASEAN". Study prepared by Dr. Supachai Panichpakdi, Bangkok.

UNIDO/IS.291 "ASEAN Finance Corporation: Prospects and Challange". Study prepared by Dr. J. Panglaykim, Jakarta.

UNIDO/IS.311 "Regional Industrial Co-operation - the approaches pursued by ASEAN".

UNIDO/IS.312 "General Overview of the Andean Group". Study prepared by the Andean Pact Secretariat (JUNAC).

UNIDO/IS.313 "Economic and Industrialization Policies in the Andean Group of Countries, 1970-1980". Study prepared by Professor Javier Iguiñiz, Lima.